

BEFORE THE
INTERSTATE COMMERCE COMMISSION

TESTIMONY OF THOMAS W. HULME

DOCKET No. Ex Parte 74

In the Matter of the Applications of Carriers in Official, Southern and
Western Classification Territories for Authority to Increase Rates

Washington, D. C., May 26th and 27th, 1920

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THOMAS W. HULME

was thereupon called as a witness and, having been first duly sworn, testified as follows:

DIRECT EXAMINATION.

Q.—(By Mr. Gowen.) What is your official connection with the Pennsylvania Railroad Company, and also with what is known as the Presidents' Bureau of Valuation.

A.—I am the General Real Estate Agent of the Pennsylvania System, and have been in that line of business for 30 years. Since the passage of the valuation act, in 1913, I served first as secretary, and since as vice-chairman of Presidents' Committee on Valuation. It has been my duty, in that connection, to co-ordinate the working of its committees and the assistance desired by the Bureau of Valuation. I have served as Chairman of the Engineering Committee, the Land Committee, and the Accounting Committee. In that way, I have had an opportunity to be fully informed by the railroads as to the progress of the work as it was going on.

The general office of the committee has been in Philadelphia, under my direction, and to that office there have been made from time to time reports as to the progress of the work. The Commission has recognized the Presidents' Committee as the means through which it should obtain co-operation from the carriers, as required under the terms of the Act. In that way, I have been in frequent consultation with the officers of the Bureau of Valuation, and thus have had an opportunity to be informed as to the methods pursued by the Commission.

Q.—Mr. Hulme, have you prepared any compilations from the various reports which have been made in connection with the valuation?

A.—I have.

Q.—That have been submitted, so far, by the Bureau of Valuation or by the Commission?

A.—I have.

Q.—Do you remember about how early those first reports were submitted?

A.—I think it was in the latter part of 1914, when the first reports were submitted.

Q.—Latter part of 1914?

A.—Yes, sir.

Q.—Now, what was the character of those reports? Were they tentative valuation reports, or were they reports of inventories by the Bureau of Valuation?

A.—The Commission has served upon 55 railroad companies tentative valuations. It has since submitted, through the Director of Valuation, to several hundred railroad companies, tentative engineering and land, and a few accounting reports, for the purpose of having the carriers check them, and thus assist the Commission, or rather the Bureau, in getting reports in as correct form as possible before they were submitted to the Commission for service.

Q.—That is, it has been the practice of the Bureau to submit its inventories to the corporations with a view of receiving suggestions or criticisms, I presume, with the view of inventorying, to arrive at a joint agreement or understanding as to the quantities and as to the prices?

A.—As to all questions of fact.

Q.—All questions of fact?

A.—Yes, sir.

Q.—Now, to what extent have those reports, reports of that character, been served upon the carriers?

A.—I stated before that 55 were served.

Q.—Those are tentative valuations?

A.—Those are tentative valuations. There have been tendered to the carriers, in the first 55 valuations that were served—there were 7 of them of class one carriers. There has subsequently

been delivered—I should have said 9 class one carriers in the tentative valuation. There has since been submitted to 41 class one carriers engineering reports, and to 29 of those carriers land reports; but, in the case of 12 of the 41 carriers, no land reports have been tendered.

Q.—(By Commissioner Aitchison.) How about the accounting reports, Mr. Hulme?

A.—Very few first-class carriers have received accounting reports. I may not have been advised as to them all, but I should say less than a dozen of class one carriers.

Q.—(By Mr. Gowen.) This organization with which you have been serving consisted of class one roads, only, as I understand?

A.—Yes, sir.

Q.—You have received practically no information as to class two or three roads, or at least you are not in a position to check reports with respect to those roads, as you have the others?

A.—I am not.

MR. THOM:—Now, this witness is about to go into testimony which we would like to have heard consecutively. There is only about five minutes more, and that would divide an important part of his testimony from what will follow tomorrow. I do not believe it will save any time, and I would like to ask the Commission, if they would be willing to recess at this point and take his testimony up in the morning.

MR. THORNE.—Your Honor, Mr. Nay was to have had a statement he brought here this afternoon prepared to file, showing the accrued depreciation for the Western District. If Mr. Hulme is not going on, could this be put in now?

THE CHAIRMAN:—Is Mr. Nay here?

MR. THOM:—Mr. Nay brought that here. We are willing for it to go in, your Honor.

THE CHAIRMAN:—Very well. It may be received.

MR. THORNE:—Mr. Nay wrote in lead pencil on the bottom the materials and supplies for the beginning of the period December 31, 1917, which would enable me to get the increase in materials and supplies subsequent to January 1, 1918, for class one roads, and, subject to check, Mr. Thom, Mr. Nay stated that while it did not include class two and class three roads, it could be accepted as approximately representative of the three groups?

MR. THOM:—This endorsement is not on the copy we have. I would like to have it received subject to Mr. Nay's check on that.

THE CHAIRMAN:—Mr. Thorne so indicated in his statement.

MR. THORNE:—This indicates that there is accrued depreciation for the western roads as a whole of \$379,030,480.

(The statement referred to was received in evidence, marked "Nay Exhibit A," and the same is forwarded herewith.)

MR. THORNE:—The question was brought up before the noon recess in regard to passenger traffic.

As I am informed, your Honor, that the carriers during the year 1919 kept separately the directly assignable expenses as between passenger and freight, it would be possible to apply to the remainder the formula prescribed by the Commission and arrive at a total figure for freight expenses and another for passenger expenses; it could probably be done approximately in a few days for a particular group by a competent accountant. It seems to me it would be very desirable in view of the record that has been made in this case where a carrier's witness has conceded that practically all increases in expenses apply both to passenger and freight, if we could have a statement showing the expenses last year as between passenger and freight. I understand that it would not take over two days for such a separation to be made as I have described by a competent accountant, and by morning I would like to know if the carriers would undertake to do that for the following roads. It seems to me it might well be done during the recess, at the close of the carriers' evidence and the beginning of the shippers:

Santa Fe, Great Northern, Chicago, Burlington & Quincy, Chicago & Northwestern, Baltimore & Ohio, Pennsylvania Lines—East and West, Erie, New York Central Lines, Louisville & Nashville, Atlantic Coast Line and Southern.

THE CHAIRMAN:—You have all heard this request of Mr. Thorne's, and we will be glad to know what you have to say with regards to it tomorrow morning.

We will take a recess now until 10 o'clock tomorrow morning.

(Thereupon, at 4.30 o'clock P. M., an adjournment was taken until tomorrow, Thursday, May 27, 1920, at 10 o'clock A. M.)

PROCEEDINGS.

THE CHAIRMAN:—You may proceed, Mr. Gowen.

THOMAS W. HULME

resumed the stand for further

DIRECT EXAMINATION.

Q.—(By Mr. Gowen.) You stated yesterday, Mr. Hulme, that certain reports had been received from the Bureau of Valuation, and that you had made a compilation of those reports. Before referring to that compilation, will you state on what basis those reports were made out?

COMMISSIONER AITCHISON:—I beg your pardon, Mr. Gowen, but it is very difficult for us to hear the questions.

MR. GOWEN:—I have asked him to state the basis upon which those reports, the reports from the Bureau of Valuation, were made up.

THE WITNESS:—The Commission has taken steps to enable it to estimate the cost of reproduction of the structural properties; to estimate the value of similar adjacent lands; and, through its force of accountants, to investigate the investment accounts of the railroad companies. Quantities have been determined through co-operative field parties, with computations as to the quantities subsequently made, and checked by the Commission's forces, and by the representatives of the railroad companies. The Commission has investigated as to the acreage value of adjacent lands. To the quantities calculated by the engineering forces, the Commission has applied prices as of 1914, or based upon a period of five years preceding.

Q.—(By Mr. Gowen.) Have you made any comparison between the reports thus received from the Commission, and its bureau, and the road and investment accounts of the carriers?

A.—Yes, sir; I have made such a comparison.

Q.—I should have said road and equipment accounts.

A.—I have illustrated it by the preparation of a chart, of which I have fifty copies.

(The paper referred to was received in evidence, marked "Hulme's Exhibit No. 1," and the same is forwarded herewith.)

MR. THORNE:—If your Honor please, the subject taken up by this witness is a valuation made by the Commission, and I do not know to what extent the Commission can go outside of the present record, in the present proceeding, but it does seem to me that it would be of value to see if this

record is properly made up on this particular subject, if the Director of Valuation and the counsel for the Commission could be present during the conduct of this part of the hearing.

THE CHAIRMAN:—I did not quite catch what you said, Mr. Thorne.

MR. THORNE:—Evidently we are entering upon a statement of the valuation being made by this Commission. I do not know to what extent the Commission will go, or can go beyond the record made up in this proceeding, so far as this particular case is concerned. Therefore, we as shippers, I know, would appreciate it if the Commission could have the Director of Valuation and the counsel acting in connection with that matter present during this part of this hearing.

THE CHAIRMAN:—Is it not a fact, Mr. Thorne, that the Commission is authorized to utilize all of the information that it has gathered in connection with this valuation work?

MR. THORNE:—That is probably so. We are now hearing, however, additional testimony from the witness, and those gentlemen are not present or participating.

COMMISSIONER AITCHISON:—Is not this all submitted subject to check, Mr. Hulme, this line of testimony?

THE WITNESS:—I have so assumed, and I have undertaken not to use any figure that is not in the records of the Bureau of Valuation.

MR. THORNE:—If that is so, I have no suggestion to make.

MR. PLUMB:—Mr. Chairman, I should like to have the last question to the witness read. We could not hear it over here.

THE CHAIRMAN:—Gentlemen, I must request that there be less confusion in the room. There are those who want to hear both the questions and the answers, and it has been very difficult all through. If those who want to converse will kindly retire to the anteroom to do their conversing, the rest of us will hear better. Please read the question.

(The reporter thereupon read the question referred to, as follows:)

Q.—(By Mr. Gowen.) Have you made any comparison between the reports thus received from the Commission and its bureau, and the road and equipment accounts of the carriers?

MR. PLUMB:—Now, Mr. Chairman, I should like to ask, in the comparison which the witness has made, is he comparing the reports made by the Interstate Commerce Commission as to the cost of reproduction new with the property investment accounts of the railways?

THE CHAIRMAN:—I do not know what he is going to do yet, Mr. Plumb.

MR. PLUMB:—I should like to have an explanation of the table made, so that we may know what reports are compared with that account; whether it is the report on cost of reproduction new, or the report on actual investment account that has been stated here.

MR. GOWEN:—That will be developed.

THE CHAIRMAN:—You may proceed, Mr. Hulme.

THE WITNESS:—In the fifty-five tentative valuations that have been served by the Commission upon the carriers, there were only nine carriers of class one, and about fourteen carriers of class two, leaving some odd carriers of class three. I am not able to deal with either the second or third class of carriers. Therefore, I have made my comparisons solely with reference to class one carriers.

The chart shows the names of the carriers by groups, the Eastern, Southern and Western, and makes a division between the figures contained in the tentative valuations and the figures contained in preliminary reports sent by the Director of Valuation to the carriers. Of the nine tentative valuations, the total investment in road and equipment of those carriers was \$344,579,273.

Q.—(By Mr. Gowen.) Suppose you put in there the mileages of those.

A.—Yes, sir. It covers 4688 miles of road. The cost of reproduction new, and the present value of land, as found by the Commission, was \$242,594,825, or a cost of reproduction new and land \$101,984,448 less than the road and equipment accounts. In the forty-one preliminary and

engineering and land reports covering 47,165 miles, those carriers had an investment in road and equipment, as of the respective dates of valuation, which were either June 30, 1914, or 1915, or 1916, totaling \$2,813,695,883. Not all of these roads have had tendered to them the preliminary land reports. Only thirty received such reports, which totaled \$214,475,462. For the remaining eleven roads I have taken the return by the carrier to the Commission under Order No. 7, which is the original cost of the land. For such carriers the amounts are as follows: Hartford Connecticut Western, \$669,632.

Q.—(By Commissioner Aitchison.) Mr. Hulme, are you going to give us the detail on those, so that we can check it?

A.—Later I will file a statement that embraces everything. I have it ready now.

Q.—Does it include these figures you are now giving?

A.—No, sir. I am now giving the original cost of the lands to the carriers, the eleven carriers, as contained in returns to the Commission.

Q.—(By Mr. Thorne.) What was the full name of that railroad?

A.—Hartford Connecticut Western. Maine Central, \$2,214,567; New York, New Haven & Hartford, \$71,000,000; Central New England, \$1,911,772; Soo Line, \$6,634,182; Northwestern Pacific, \$691,879; Spokane, Portland & Seattle, \$6,093,285; Oregon-Washington Railroad & Navigation Company, \$19,857,000; Oregon Short Line, \$2,666,841; Mineral Range Railroad, \$113,582; Texas & Pacific, \$1,127,432.

Q.—(By Commissioner Aitchison.) Mr. Hulme, can you give any explanation of the startling difference between the Oregon-Washington Railroad & Navigation Company and the Oregon Short Line?

A.—I cannot, of official knowledge, but my impression was one was a land grant road, and the other was not.

Q.—You are mistaken.

A.—You can probably give it better than I can, Mr. Commissioner.

By adding the estimate of the figures, contained in the tentative reports of the Commission and the original cost of lands for these other eleven carriers to the engineering estimate, we have a total for these forty-one roads of \$2,961,187,718, as contrasted with \$2,813,695,883, or an excess——

Q.—(By Mr. Gowen.) What is that last figure?

A.—The total—I have made a mistake in my addition. By adding the land figures to the engineering figures, you have a total of \$2,961,187,718, as cost of reproduction and land, with some at original cost; which, when contrasted with the road and equipment accounts of \$2,813,695,883, makes an excess of \$147,491,835.

Q.—An excess over the road and equipment account?

A.—Road and equipment account.

Q.—Mr. Hulme, these reports, which are engineering reports submitted by the Bureau, are submitted for the purpose of enabling the quantities, and everything contained in them, to be checked by the carriers in order that they may call attention to any features which they think should be further considered by the Bureau. What has been the experience of the checking of those accounts?

A.—The inventories are so voluminous, the number of items is so great, that it is only natural that there should be not only errors in calculation, but many differences of opinion. It is my understanding that where there is a difference of opinion between the men co-operating upon part of the railroads with the local representatives of the Interstate Commerce Commission, it is the custom of the engineer in charge for the Commission to put down such a sum of money as he deems proper and conservative, and thus afford an opportunity for the supervising officials of the Bureau of Valuation to have from the carriers their exceptions and reasons for any of these differences.

The result is, in many cases, a material increase when the inventory has been finally checked and the carriers' informal exceptions have been stated to the Director; but aside from any individual questions for particular carriers——

Q.—(By Commissioner McChord.) You mean a change by the Director, or a change agreed upon in the field with your men?

A.—I mean that the changes that are subsequently made are after the reasons therefor are given in writing to the Director, who sends them to the member of the engineering board for further consideration, and then they are reported back. In other words, my understanding is that after the preliminary report has been sent by the member of the engineering board to headquarters in Washington, no changes can be made without the knowledge of the supervising official.

Q.—What you are detailing now is the system of co-operation?

A.—Yes, sir.

Aside from these individual differences there are very decided differences between practically all the railroads and the Bureau of Valuation, upon the costs of grading, track-laying and surfacing, general expenditures, and interest during construction, and these involve very large amounts. In addition, there is apparently, so far as I can observe, a lack of definite policy up to the present time with reference to the treatment of the expenditures for elimination of grade crossings and highway changes. It is my understanding that the Commission, in its decision in the Kansas City Southern case, directed that certain expenditures made in the construction of the viaduct off the right of way of the carriers would be included in the inventories; but subsequent inventories submitted to the carriers do not disclose fully to what extent this is being done, and there is apparently a difference in the method of treatment. This would be a very important matter to the railroads in the thickly-settled portions of the country.

Q.—(By Mr. Gowen.) Mr. Hulme, while I understand that there are these differences of view, or opinion, between the carrier and the Bureau, as to the amounts to be allowed for these items to which you have referred, in the figures which you have given you have confined yourself entirely to the figures so far adopted by the Bureau, or embraced in the reports which have been served?

A.—That is correct.

Q.—(By Mr. Helm.) Does that include the preliminary reports of the forty-one roads?

A.—It does.

Q.—There is nothing there except what has been approved by the Division of Valuation?

A.—I do not like to use the term "approved." I will use the term "submitted."

Q.—(By Mr. Gowen.) I understand, Mr. Hulme, that all these so-called preliminary reports are based upon prices of 1914, or of the five-year period preceding?

A.—Yes, sir.

Q.—Have you given any consideration to the question of the effect upon the amounts shown by those reports of the application of later prices?

A.—I have. Mr. Prouty, the Director of Valuation, stated, in an argument in January before this Commission upon the subject of value, that he had reported to the Director General of Railroads that the costs in 1918 were approximately 175 per cent of those in 1914. Our study of prices, including those index figures submitted in the reports of the Bureau of Labor statistics, are that such costs in the latter part of 1919 and the early part of 1920 were about 212, as compared with 1914.

Q.—Based upon your study of the whole situation, Mr. Hulme, and upon the information disclosed by the reports which have already been served, either by the Commission or by the Bureau of Valuation, I should be glad if you would state what your judgment is as to the result, as to the comparison that will ultimately be made between the valuation reports when completed, and the road and equipment accounts of the carriers?

A.—When you take into consideration that the first roads for which the Government undertook its valuation work were either small roads, selected for the purpose of testing out proper methods, or were roads that were then in the hands of receivers or had recently been in the hands of receivers, or been subject to reorganization, and compare the results obtained from the earlier investigations with the results obtained from the preliminary reports of roads that have gotten along very well, but in which there are included but a few of the larger railroad systems of the country, it seems to me that the figures that I have just submitted, showing the relationship, even on the basis of the 1914 prices of these forty-one roads, would lead anyone naturally to the conclusion that, as the stronger and bigger systems are reached, the total of the reports as to cost of reproduction on the 1914 prices and the land values ascertained under the methods used by the Commission, would produce results considerably in excess of the road and equipment accounts.

Q.—(By Commissioner Aitchison.) Let us understand that. It is a pretty long answer, and I am not sure I got it all, Mr. Hulme. The valuation dates differ?

A.—Yes, sir.

Q.—Some are in 1914, some 1916, and some in 1917. With what year investment have you made your comparison?

A.—I have taken the road and equipment account of whatever year the Commission has fixed as the date of valuation.

Q.—That is what appears in this chart?

A.—Yes, sir.

Q.—And your answer is directed to the same comparison.

A.—The same comparisons?

Q.—As of the valuation date?

A.—Always. It is the only basis upon which I could make a comparison.

Q.—(By Mr. Gowen.) Mr. Hulme, in that connection, are you able to state the relation between the Bureau's reports and the road and equipment accounts of the carriers, having a mileage in excess of 1000 miles? You have just spoken of the largest systems. Have you any computations of that sort?

A.—The carriers having a mileage of 1000 or greater that are included in this report have road and equipment accounts, as of their respective dates of valuation, of \$2,033,000,000.

Q.—(By Commissioner Aitchison.) Would you mind letting us have the names of those?

MR. GOWEN:—Will it be satisfactory if he has them made up and handed up to you?

THE WITNESS:—I will file a memorandum of that. The cost of reproduction plus the land figures, as I have so ascertained, in the manner I have described, is \$2,276,000,000.

Q.—(By Mr. Gowen.) Or an excess of about 10 per cent over the road and equipment?

A.—Just about 10 per cent.

Q.—Mr. Hulme, you were asked yesterday, I think, by Mr. Commissioner Aitchison, some question with respect to the investigation of the Bureau of Valuation, on the investment accounts, which they were putting out. Will you please state your knowledge of that?

A.—My recollection of the Commissioner's question was as to whether there had been many of these accounting reports tendered. My answer was that, so far as class one roads were concerned, I thought there were about 12. My understanding is that the Commission has had great difficulty in maintaining a proper force of accountants to do this work, and therefore it has not progressed equally with the engineering and land work. These accounting reports contain a restatement of the investment accounts of the carriers. My observation is that they are restated on the basis of the present classification of the accounts, which were somewhat different from what they were in the earlier years. I find, upon examination of these reports, that there is eliminated from the restated amount discounts on securities issued, because the present classification provides for such treatment, as the earlier classifications did not. These amounts, in the aggregate,

amount to very large sums of money, and I believe that that is a question which the Commission itself will give consideration to in the final makeup of the reports, as to how that should be dealt with.

Q.—(By Commissioner Eastman.) When you say “very large,” just what do you mean? Can you give an approximate figure?

A.—I would find, in the case of one carrier alone, that it would run to \$6,000,000 or \$7,000,000. If you take that for many carriers of the country, you can see how large a sum it would make.

Q.—That is now included in the road and equipment accounts?

A.—It is the practice, ordinarily, to write into the road and equipment account the sum of money that the carrier obtained from the issues of securities.

Q.—Those discounts are now in the road and equipment accounts, as stated on the books?

A.—Yes, sir. Not in all cases, but in the cases of many carriers. The Commission’s accountants, in restating the amount, omits from his statement any amount which he so found on that account, but is calling attention to it in the report that is submitted.

Q.—(By Commissioner Aitchison.) How about abandoned property?

A.—In so far as I have had the opportunity to examine these reports, I do not find many references to abandoned property, and I am not surprised at that, because of the great difficulty of determining how those things were treated.

Q.—Whatever abandonment there has been, which has not been taken out of the investment accounts, still persists in the adjusted figure, does it?

A.—Unless it is taken care of in some other way.

Q.—What is your observation as to whether abandonments were always taken out of the investment and road and equipment accounts?

A.—Do you mean my observation, entirely aside from these accounting reports?

Q.—Well, you are testifying as an expert here.

A.—I did not use that term. However, I will endeavor to answer your question.

Q.—I think you can.

A.—I find the practice differs on different roads.

Q.—On some of the roads abandonments were not wiped out of the investment account?

A.—I think that is so.

Q.—And they are still there?

A.—So far as I know.

Q.—Is that true of equipment, as well as road?

A.—I think not, as a rule.

Q.—Principally the road items?

A.—Yes, sir. In completion of my answer to counsel’s question, I was going on to say that I find that the total of the returns of a number of the roads under Order No. 8, which is the order requiring the report of original cost of equipment, the total under those reports is in numerous cases considerably in excess of the amount carried upon the carrier’s books in the equipment account and the accountant of the Commission, in his restatement of the investment, will include that excess if he finds items upon the books of the carrier which he can identify. But, where he is unable to identify in whole, he only includes in his restatement the amount for which he found original entries upon the books of the carrier. In the case of several carriers, that meant the inclusion of only 50 per cent of the excess reported under Order No. 8, of the amount carried upon the equipment in the equipment account of the carriers. So, there is a difference in the treatment accorded to discounts on securities, on the one hand, and excess costs over the amount carried upon the books upon the other hand.

Q.—(By Commissioner Aitchison.) Would you mind stating whether there is any considerable amount in the aggregate of abandoned property which has not been written out of road and equipment accounts?

A.—I am unable to do that. I have no knowledge, in the aggregate, of such a thing.

MR. SHRIVER:—Mr. Hulme, as a matter of information, in referring to the discounts on securities, you refer to the discounts incident to securing money to make the construction. Is that the idea?

THE WITNESS:—That is what I meant, yes, sir.

Q.—(By Mr. Gowen.) Mr. Hulme, you have so far made a comparison between the reports of the Commission and the Bureau, and the road and equipment accounts of the carriers as a whole. Now, we are dealing here with three groups. I wish you would indicate the apportionment of both of those accounts, both the reports and the road and equipment account, between the groups.

A.—My answer to that question ought to be preceded by calling attention to the fact that the chart shows at the bottom where I have added together the figures contained in the nine tentative valuations and the forty-one preliminary reports.

Q.—Now, taking up the carriers by groups, taking first the eastern group, will you state the number of carriers that have been dealt with in the Commission's reports, as to the cost of reproduction and the road and equipment accounts?

A.—For the fifty carriers that are summarized in this chart, eighteen were in the eastern group. They have road and equipment accounts, as of their respective dates of valuation, aggregating \$1,014,807,254. The cost new and the land, including some land at original cost, is \$1,205,407,829, an excess of about \$191,000,000. There were fourteen roads in the southern group whose investment in road and equipment, as of their respective dates of valuation, was \$335,647,336. The total new and land, as so ascertained, was \$366,288,043, an excess of about \$31,000,000.

Q.—(By Commissioner Aitchison.) Mr. Hulme, those figures are pretty hard to catch. Did I understand you were going to give us an exhibit on that?

A.—In a moment, yes, sir. There were eighteen roads in the western group having road and equipment accounts, as of their respective dates of valuation, of \$1,807,820,566, with cost new and land, as so ascertained, of \$1,632,086,671.

Q.—(By Mr. Gowen.) There is a deficiency there of how much?

A.—Which is about \$165,000,000 less than the road and equipment accounts.

Q.—Of that \$165,000,000, over \$100,000,000 was attributable to the——

A.—(Interposing.) Nine roads in the tentative valuation. I think the figure is a little less than \$100,000,000—about \$95,000,000.

Q.—(By Mr. Helm.) Mr. Hulme, do you happen to have there, to complete your statement, the original preliminary reports covering the nine roads, on which tentative valuations have been made?

A.—The statement that I am about to offer will contain those figures.

Q.—(By Mr. Gowen.) I believe you have already expressed your opinion as to the ultimate comparison that will appear upon service, or after service of all the reports by the Bureau, as between the accounts shown therein and the road and equipment accounts of the carriers as a whole. Does that opinion which you have expressed apply equally to the groups as well as to the roads in the aggregate?

A.—It does, yes, sir.

Q.—As I understand it, with respect to the eastern and southern groups, the reports of the Bureau and of the Commission show an excess of reproduction cost over the road and equipment accounts. The western group shows a slight deficiency, leaving out the first nine tentative valuations. Just what is your reason for concluding that the western group would show an excess when all the reports have been received from the Bureau?

A.—Well, in addition to the figures that I have given, and which, when considered in connection with the progress of the work and the status of the carriers enabled me to form an opinion upon the subject, I have, in the seven years that I have been acting for the carriers in this con-

nection, had many conferences with the representatives of the various roads. It is the custom to go over the progress of the work, and consider the probable outcome. I have been aided in my formation of an opinion by what they have said to me, by what they have shown to me as the result of inventories and valuations that have been made, either by state authorities or by engineers that have been employed by those companies in recent years for the purpose of making up inventories and valuations, most of which occurred shortly prior to the passage of the Valuation Act. In that connection, I have given consideration to the treatment by various carriers in their accounts of the acquisition of other railroad properties, either by merger, or by purchase of the stocks and bonds, and the methods upon which they have then entered in their books the cost of those properties; likewise a comparison of roads with other roads that have been investigated on a mileage basis, which has resulted in an opinion, at least upon my part, a year or more ago, that the results of the Commission's inventories, on the basis that they were then being prepared, would, for the eastern roads, by reason of the financial treatment that those roads had adopted for their accounts, result in a very considerable excess of reproduction and land figures over their road and equipment accounts. The figures that have been set forth in these statements as to the South indicate a very sound condition of the road and equipment accounts of the southern roads. When we come to the western roads, and realize that with their great mileage, the large amounts that are involved in these accounts, particularly length of the construction period, involving the interest during construction, track-laying and surfacing, grading, and also take into consideration that quite a large number of roads included in these western figures are in a class in which the Commission finds their cost of reproduction is approximately \$40,000 a mile, it will be understood that it does not include what might be called the standard roads of the West, such as the Chicago, Burlington & Quincy, the Northwestern, the St. Paul, Minneapolis & Omaha, and such roads.

Q.—(By Commissioner Aitchison.) Do you call the Rock Island a standard road?

A.—I call the Rock Island a standard road, and I think that is somewhere in the \$53,000 or \$54,000 class, as contrasted with those that are included as less than \$40,000 a mile. We ordinarily find, and do find in these reports roads whose financial stability has long been recognized, producing results in these investigations which more than sustain the road and equipment account; so that it is my belief, when the reports are made with reference to the standard railroads of the West, that the aggregate for that territory will indicate fully that the road and equipment accounts of that group, as a whole, are amply sustained.

Q.—(By Commissioner Hall.) Mr. Hulme, with reference to the road and equipment account for the eastern group, taking, for example, the Pere Marquette, the valuation made there was of June 30, 1915, I think. Then, you took the investment in road and equipment as of that date?

A.—Yes, sir.

Q.—On that road?

A.—Yes, sir.

Q.—The same way with the New Haven?

A.—Whatever its date of valuation was.

Q.—That valuation date of the New Haven is June 30, 1915. You took what appeared on the books of those two carriers as of those dates, as representing their investment in road and equipment. Is that correct?

A.—Yes, sir; but I would like to amplify my answer, Mr. Commissioner.

Q.—Yes, sir. Proceed.

A.—The setting up of the road and equipment account for a system has to be done with a great deal of care to avoid duplication. Therefore, I not only took what was included in the report, if there was one, but largely these figures are almost entirely from the Commission's publication of the statistics of the railroad, checked and cross-checked to Poor's Manual; so, I had three sources of information. But the figures here given are invariably those contained in the publication of statistics by the Interstate Commerce Commission.

Q.—Now, did you take into account, for checking purposes, or otherwise, anything that appeared in the Commission's report, in the investigation of the Pere Marquette and the New Haven roads, respectively.

A.—In the accounting report?

Q.—No, not in the accounting report; the court of financial relations——

A.—(Interposing.) The statement which I have in detail in the first column is the engineering report of the Commission, the cost new. The next would be the land; the next would be the combination. The figure we had there, I have said——

Q.—(Interposing.) I am not speaking of those. I am speaking of the yellow bar, on the diagram. I understand that yellow bar is made up of what is taken from the books of the carriers, as of the valuation date?

A.—I took it from the published statistics of the Commission, as of valuation date.

Q.—But without taking into account anything that had been developed as to padding, or otherwise of that account?

A.—That is right, sir.

Q.—In the investigations that the Commission had occasion to make, and on which it put forth reports?

A.—That is correct.

Q.—(By Commissioner Aitchison.) That practice also applies as to the Rock Island, in the Western district?

A.—Yes sir. You will understand that I have taken, not capitalization, but road and equipment account.

Q.—(By Commissioner Hall.) That is what I was speaking of.

A.—Yes, sir.

Q.—(By Mr. Benton.) I want to ask a question, merely so that I can be sure I understand. When you say that in your opinion the final results will show that the road and equipment accounts are fully sustained, just what do you mean by "sustained"?

A.—I mean that the Commission's inventory, so-called engineering inventory—that is, the construction inventory, when finally determined, plus the determination of the land value on the adjoining acreage basis, as found by the Commission, when added together, will be more than the amount shown upon the carriers' books as road and equipment. That is my opinion.

Q.—(By Mr. Thom.) You are speaking of aggregates, are you not?

A.—I am speaking of aggregates, yes, sir.

Q.—Not of individual roads?

A.—Not of individual roads.

Q.—(By Mr. Benton.) Without any allowance for severance values?

A.—Without any allowance for severance value of land at all.

Q.—And do you take any account of depreciation?

A.—I have not dealt with that yet. I will.

Q.—I was enquiring, whether, in making that statement, you took any account of depreciation at all?

A.—Depreciation is not treated in the figures I have so far given.

Q.—(By Commissioner Eastman.) Mr. Hulme, the comparisons you have made so far are between the road and equipment account and the cost of reproduction new, plus the present value of land?

A.—Except in the 11 cases where I did not have the Commission's figures as to present value of land, and that was because the Bureau of Valuation had not determined it. I went to the Bureau to find out whether they had determined, and so, in those 11 cases, I took the return of the company as to original cost for land.

Q.—With that exception, the comparisons are as I have stated?

A.—Yes, sir.

Q.—And, of course, you do not know yet whether or not the Commission will adopt the cost of reproduction new plus the present value of land as a basis for value?

A.—I have not undertaken to discuss value at all, sir, up to this point.

Q.—You are just making comparisons between those two things, the road and equipment account and the cost of reproduction new plus the present value of land?

A.—That is correct.

Q.—Taking these carriers in the eastern district which you have listed, as to preliminary reports, what percentage of that mileage is in New England? Do you know?

A.—I have never done that.

Q.—Taking them by number, aren't there about half of them in New England?

A.—I can answer your question in a second.

MR. THORNE:—Would it be asking too much to have copies of that table, so that we could follow his testimony more easily?

MR. BURCHMORE:—On this side of the room none of us have copies of the exhibits, we are trying to understand what is being talked about.

THE CHAIRMAN:—None of the rest of us have them yet.

MR. BURCHMORE:—I mean, the large chart that has been talked about so far.

THE WITNESS:—Mr. Chairman, I produced fifty copies. I have in reserve about ten copies more.

MR. BURCHMORE:—I asked counsel, and they would not find one for us.

THE WITNESS:—I brought sixty odd copies.

Q.—(By Commissioner Eastman.) Have you got that answer, Mr. Hulme?

A.—Yes, sir. It is 4680 miles in New England, out of 12,384, for the East.

Q.—That is a little over one-third?

A.—Approximately.

Q.—Is it not true that the capitalization of the roads has been more conservative in New England than in other parts of the country?

A.—I would not like to answer that that way. I think it has been conservative. I think the result of this investigation discloses that; but I would not be able to say whether it was more conservative.

Q.—You know there were laws restricting the issue of capital stock in New England before there were in any other part of the country, do you not?

MR. GOWEN:—Mr. Commissioner, we are not at all dealing with capitalization here.

COMMISSIONER EASTMAN:—You are making a comparison with road and equipment account, which is based on capitalization in many cases.

Q.—(By Commissioner Eastman.) Have you the separation of your figures showing the results of the New England lines, and then the results for the other lines, separately?

A.—I have not done so, but it will not take long to divide them on this table.

THE CHAIRMAN:—He asked you if you could do so.

THE WITNESS:—I will do so immediately.

Q.—(By Commissioner Eastman.) You do not need to do it right away.

A.—I will have my clerks do it, if you will be satisfied with that. I will give you the answer later.

Q.—(By Mr. Fulbright.) Mr. Hulme, does your investment in road and equipment include only those items that come under the construction ledger, or does it include all items that may be carried by the carriers in the general road and equipment account, as reported to the Commission?

A.—It includes the items that are reported to the Commission in the road and equipment accounts. I do not know whether I fully grasp your question, but it does not include such things as are carried in miscellaneous physical property.

Q.—What about the cost of securities?

A.—It does not include them.

Q.—You find what is known as the construction ledger accounts?

A.—Yes, sir; if by that you also include the land that is in there.

MR. WOOD:—It corresponds with whatever figure is carried on the books of the company, and reported to the Commission, under the item known as cost of road and equipment.

THE WITNESS:—Right.

Q.—(By Commissioner Aitchison.) I think you could clear up Mr. Fulbright's question by saying that that item includes cost of road purchased?

A.—That is true. I did not have that in mind.

Q.—(By Mr. Gowen.) Mr. Hulme, in making comparisons which have been so far made, you have dealt with the cost of reproduction as indicated by the reports served by the Bureau of Valuation, and have not, as you said, taken into account any question of depreciation or appreciation. I should be glad if you will state why you confined yourself to this cost of reproduction, without dealing with the other feature.

A.—I was making a comparison between this cost of reproduction figure and the accounts as kept by the carriers under the accounting classification of the Commission, which does not provide for any reduction on account of any kind of depreciation. I did not feel called upon to deal with the question of depreciation, because that subject is under consideration by the Commission. There have been many arguments before it, both from a legal and equitable standpoint and pending its determination, as I was solely making a comparison between the figures found by it with the figures reported, as contained in the road and equipment accounts, I did not deal with the question, but I have made a calculation to illustrate what I understand would have to be done if theoretical depreciation must be taken into consideration. It is my understanding that when it is so dealt with in connection with the cost of reproduction estimate, that appreciation, going concern value, must be taken into consideration; that also it must be used in connection with the application of prices in making up the inventory reflective of conditions as of the time of the inquiry. Now, if you will take a road which the Commission would have inventoried as of 1914 at \$1,000,000, \$200,000 of which was for land, and \$800,000 for construction, you increase that \$800,000, by the Director of Valuation's ratio of one seventy-five; you would have a construction account of one million and four, as of 1918. If you reduce that by a sixth—I use that figure, because it is my understanding that the theoretical depreciation as contained in these reports submitted by the Commission was approximately 17 per cent—if you reduce the one million and four by a sixth, you take off \$233,000, which would reduce you to \$1,166,000. If you add the land figure of \$200,000 to that, you have \$1,666,000, or 33 per cent, ascertained as of 1918 prices, over the figure ascertained as of 1914 prices, without including anything for appreciation or going concern value, and without the inclusion of anything for materials or supplies or working capital.

Q.—(By Mr. Plumb.) May I ask you a question, please?

A.—Yes, sir.

Q.—That would show an increase in value of 33 per cent during those four years?

A.—I have said nothing about value. It would show an increase in inventory.

Q.—It has no bearing on value, then, at all?

A.—I think it has.

Q.—You think it has?

A.—Yes, sir.

Q.—Then, when you say “increase in inventory,” you do not mean an increase of the things inventoried, but an increase of the value of things inventoried?

A.—An increase of the cost of the things in the inventory.

Q.—If the things were purchased four years ago, their cost was fixed at the time of the purchase, wasn't it?

A.—Most of the things in this inventory were not purchased four years ago.

Q.—More than four years ago?

A.—More than four years ago.

Q.—Their cost was determined at the time of the purchase, was it not?

A.—Their cost has not been determined by the Commission at all, in this investigation. They have constructed an inventory, and estimated the cost as of 1914.

Q.—Would the cost be changed by the lapse of time?

A.—The original cost would not, but the cost of reproduction might.

MR. THOM:—Do I understand that the Commission proposes to permit cross-examination at this time?

THE CHAIRMAN:—We will look after that, Mr. Thom.

MR. GOWEN:—We have no further questions to ask at this time.

COMMISSIONER AITCHISON:—Are there not some exhibits to go in?

MR. GOWEN:—I beg your pardon.

COMMISSIONER AITCHISON:—Are there not some exhibits to be put in?

MR. GOWEN:—Do you mean the diagram?

COMMISSIONER AITCHISON:—Mr. Hulme has been alluding to an exhibit which he said he was going to put in in a minute, as to that detail.

MR. GOWEN:—Very well. We might as well put the diagram in, and have the diagram noted as given in evidence, and also these statements, which Mr. Hulme has now before him, which deal with it somewhat more in detail than that diagram, as to the results of the inventory.

MR. PLUMB:—Mr. Chairman, is the diagram offered in evidence at this time?

THE CHAIRMAN:—It is.

MR. PLUMB:—I should like to ask the witness some questions on the diagram, because I would like to make an objection to the admission of this diagram before the question is passed on, if I might.

THE CHAIRMAN:—You may, so long as you do not get into a cross-examination, Mr. Plumb.

Q.—(By Mr. Plumb.) Mr. Hulme, you have not shown any comparisons between the property and road investments and any other findings of the Commission, save those of cost of reproduction new, have you?

A.—I have not, because there are no other findings available.

Q.—Do not the tentative reports furnish the Commission's estimate as to the cost of reproduction new, less depreciation?

A.—The tentative did, yes, sir.

Q.—And you have included 11 of those tentative reports?

A.—Yes.

Q.—Do not these reports show the actual cost, to date?

A.—I think not.

Q.—And you have made no estimate of actual cost to date?

A.—No.

Q.—Have you prepared any estimate of the actual cost to date, of these properties?

A.—No, sir.

Q.—Have you any information on that?

A.—Only what is contained in the road and equipment accounts.

Q.—And no estimate, as you stated, of depreciation?

A.—No sir.

MR. PLUMB:—I wish to object to the introduction of this chart, which shows nothing but a comparison of property investment account with the cost of reproduction new, as being incompetent, irrelevant, and immaterial, unless it should be received only for the purpose of presenting that one element, and not as having any other bearing on the value of the properties or the base upon which rates should be determined.

THE CHAIRMAN.—The contents of the diagram, I think, are easily comprehended, and it purports to show what it does show. The objection is overruled. The diagram will be admitted, for such use as the Commission may deem proper.

Q.—(By Commissioner Meyer.) Mr. Hulme, I understood you, in answer to a question of counsel, to say that the tentative report did not contain the original cost or whatever the phrase used by counsel may have been. Do you have in mind that the tentative reports do contain an estimate of the probable amount of money that has actually gone into the property?

A.—I had that in mind, but that was not the question he asked me.

MR. WIMBISH:—Mr. Hulme, referring to the Southern group, could you, without too much trouble, show the tentative valuations fixed by the Commission, and the property investment account, as carried on the books of the carriers? If you have the information readily available, I would like very much to have it. I would like to have the tentative valuations placed by the Commission, and also those shown in the preliminary report, together with the property investment account as shown by the carriers, in order that I may know the figures Mr. Hulme used in arriving at his conclusions.

MR. GOWEN:—Do you understand that the information which is desired, is furnished in this statement which will be filed?

MR. WIMBISH:—I think probably that is true. It had not been furnished up to this time.

THE CHAIRMAN:—May I suggest, Mr. Gowen, that you distribute copies of that exhibit, and then those interested will understand more definitely and clearly what is in it?

THE WITNESS:—I have over 50 copies.

THE CHAIRMAN:—Mr. Wimbish, do I understand that the request that you made is answered by this paper?

MR. WIMBISH:—I think so, Mr. Chairman.

MR. THORNE:—Mr. Chairman, I would like to ask if the various totals stated by the witness in figures—not his adjustments—are covered by the detail figures which he has presented in this tabulation. For example, he gave some statements about the larger systems, 1000 miles or greater. Are those listed in this exhibit?

THE WITNESS:—Yes, sir.

Q.—(By Mr. Thorne.) You also made a statement about eighteen roads in the Western district and other groups in the other two districts, adding a total road and equipment book value of \$1,807,000,000. Are those included in this tabulation?

A.—Absolutely.

Q.—The details, then, of all of the general statements that you have made so far are covered in this statement?

A.—That is correct.

Q.—Now, just one thing further, and I do not want to take the time for you to restate it if it is already in the record. Have you fully stated the difference between the two factors, preliminary engineering and land reports and the tentative valuation in the record?

A.—I believe that I have.

MR. THORNE:—All right.

Q.—(By Mr. Helm.) Mr. Hulme, can we identify the tentative valuation from the exhibit here.

A.—You will find the tentative valuations at the top of each statement, and the preliminary reports following.

Q.—(By Commissioner Eastman.) Have you those figures that I asked for?

A.—Yes, sir.

MR. THORNE:—Mr. Chairman, are we to make request for a witness to reappear for cross-examination at the time the witness leaves the stand, or later?

THE CHAIRMAN:—It is not necessary for you to make that request at all, Mr. Thorne.

MR. THORNE:—They are all going to reappear? Counsel asked us yesterday to indicate whom we wanted.

THE CHAIRMAN:—Excepting those that have been subjected to cross-examination.

THE WITNESS:—In response to Commissioner Eastman's question as to the mileage and the figures for New England, I find the mileage is 5578; investment in road and equipment, \$502,747,248; with the cost new, and land, ascertained in the manner that I have previously described—

THE CHAIRMAN:—Just a minute. You say "cost new." You mean cost of reproduction new?

A.—Cost of reproduction; yes, sir; with the land figures ascertained as I have described, \$721,637,089.

Q.—(By Commissioner Eastman.) What does that leave for the other roads?

A.—That leaves approximately, using round figures, for the other roads, an investment of \$449,000,000, and cost of reproduction plus land, \$421,000,000.

Q.—In those New England figures, do I understand that the New Haven land values are what they have reported themselves?

A.—Yes, sir.

Q.—Not anything that has been reported by the Bureau of Valuation?

A.—That is right. It is the original cost figure.

Q.—That figure is \$71,000,000 for the New Haven?

A.—I am so advised; yes, sir.

Q.—Which is very nearly \$60,000 per mile of road?

A.—Well, if you attempt to apportion the value in the terminals in the cities, it would be so mathematically, but that would hardly be a figure that to me would be of any service.

THE CHAIRMAN:—That seems to be all, Mr. Hulme.

(Witness excused.)

COMPARISON BETWEEN COST OF REPRODUCTION NEW,
PRESENT VALUE OF CARRIER LAND

AND

*INVESTMENT IN ROAD AND EQUIPMENT AS SHOWN ON CARRIERS' BOOKS
OF
CLASS I CARRIERS.

	Miles of Road	Cost New	Land	Cost New and Land	Investment in R. & E.
(9) Tent. Valn's.....	4,688	\$222,309,428	\$20,285,397	\$242,594,825	\$344,579,273
(41) Prel. Reports....	47,165	2,633,732,084	327,455,634	2,961,187,718	2,813,695,883
Grand Total (50).....	51,853	\$2,856,041,512	\$347,741,031	\$3,203,782,543	\$3,158,275,156

CLASS I CARRIERS.

No. of Carriers	Group	Cost New	Land	Cost New and Land	Investment in R. & E.
18	Eastern.....	\$1,041,080,882	\$164,326,947	\$1,205,407,829	\$1,014,807,254
14	Southern.....	328,768,640	37,519,403	366,288,043	335,647,336
18	Western.....	1,486,191,990	145,894,681	1,632,086,671	1,807,820,566
No. of Carriers (50)....		\$2,856,041,512	\$347,741,031	\$3,203,782,543	\$3,158,275,156

* As of date of valuation, figures extracted from I. C. C. Statistics of Railways.

Office of Secretary,
Presidents' Conference Committee,
Philadelphia, Pa.
May 24, 1920.

EASTERN GROUP.
CLASS I CARRIERS.
TENTATIVE VALUATIONS.

Carrier	Cost New	Land	Cost New and Land	Investment in R. & E.	Miles of Road
Elgin, Joliet & Eastern System.....	\$36,418,605	\$3,386,896	\$39,805,501	\$38,683,120	227
Chic., T. H. & S. E.....	22,247,890	1,017,415	23,265,305	24,927,762	363
Sub-total.....	\$58,666,495	\$4,404,311	\$63,070,806	\$63,610,882	590

PRELIMINARY REPORTS.

Ann Arbor System.....	\$12,857,069	\$683,720	\$13,540,789	\$18,741,167	354
Bangor & Aroostook.....	24,784,867	615,563	25,400,430	23,363,164	574
Boston & Maine System..	231,775,788	44,752,340	276,528,128	195,903,526	2,295
Montpelier & W. R.....	1,937,229	75,551	2,012,780	1,124,320	42
Central New England.....	15,483,002	1,911,772*	17,394,774	22,342,396	136
Hartford, Conn., West.....	5,037,461	669,632*	5,707,093	4,386,613	124
Chicago & Eastern Ill.....	72,331,056	5,420,799	77,751,855	78,990,280	1,225
Chic., Ind. & Louisville...	27,782,784	2,122,271	29,905,055	37,225,990	509
C., C., C. & St. L.....	143,779,304	15,490,541	159,269,845	144,375,812	1,687
Maine Central System.....	64,925,379	2,214,567*	67,139,946	54,983,162	1,132
Portland Terminal.....	5,253,647	2,601,268	7,854,915	5,138,223	23
N. Y., N. H. & H.....	248,599,023	71,000,000*	319,599,023	195,505,844	1,252
Toledo, St. L. & Western..	16,746,019	1,700,149	18,446,168	39,381,687	450
Pere Marquette.....	65,324,361	4,603,567	69,927,928	87,100,297	1,792
Vandalia.....	42,351,590	} 6,060,896	51,858,294	{ 36,366,572	651
Terre Haute & Peoria.....	3,445,808			{ 6,267,319	138
Sub-total.....	\$982,414,387	\$159,922,636	\$1,142,337,023	\$951,196,372	12,384
Total: 18 Vals. and Prel. Reports	\$1,041,080,882	\$164,326,947	\$1,205,407,829	\$1,014,807,254	12,974

* Carriers' Return to Order No. 7.

SOUTHERN GROUP.

CLASS I CARRIERS.

TENTATIVE VALUATIONS.

Carrier	Cost New	Land	Cost New and Land	Investment in R. & L.	Miles of Road
A., B. & A. System.....	\$25,114,141	\$2,357,676	\$27,471,817	\$39,255,787 ¹	663
Geo. Sou. & Florida.....	10,297,657	1,231,456	11,529,113	12,273,374	392
Norfolk Southern System.	24,076,990	3,010,888	27,087,878	30,617,459	902
Winston-Salem Southb'd..	5,428,444	510,655	5,939,099	5,598,558	90
Sub-total.....	\$64,917,232	\$7,110,675	\$72,027,907	\$87,745,178	2,047

PRELIMINARY REPORTS.

Central of Georgia.....	\$62,252,124	\$11,357,324	\$73,609,448	\$62,003,324	1,489
Southwestern R. R.....	9,170,145	1,769,732	10,939,877	5,191,100	333
Charleston & West. Car...	9,814,315	1,875,745	11,690,060	8,279,563	341
Florida East Coast.....	43,557,372	4,409,548	47,966,920	48,207,859	739
Mobile & Ohio.....	47,027,163	3,908,595	50,935,758	45,897,658	923
N. C. & St. L. Sys.....	56,309,554	4,857,487	61,167,041	42,066,246	1,100
New Orleans Great Nor...	7,298,789	208,825	7,507,614	16,045,669	243
Southern Ry. in Miss.....	4,881,786	564,783	5,446,569	610,656	237
Gulf & Ship Island.....	9,498,259	1,354,196	10,852,455	14,170,083	308
Ga. R. R. & Bank, inc.					
Ga. R. R. (Lessee org.)	14,041,901	102,493	14,144,394	5,430,000	301
Sub-total.....	\$263,851,408	\$30,408,728	\$294,260,136	\$247,902,158	6,014
Total:					
14 Tentative valuations and preliminary reports	\$328,768,640	\$37,519,403	\$366,288,043	\$335,647,336	8,061

¹ Investment as of December 31, 1915, after reorganization—taken from I. C. C. Statistics.

WESTERN GROUP.
CLASS I CARRIERS.
TENTATIVE VALUATIONS.

Carrier	Cost New	Land	Cost New and Land	Investment in R. & E.	Miles of Road
New Orleans, Tex. & Mex.	\$8,865,636	\$141,686	\$9,007,322	\$15,780,645	173
Kansas City Southern Sys.	46,732,105	4,530,642	51,262,747	101,050,970	879
San Pedro, Los. A. & S. L.	43,127,960	4,098,083	47,226,043	76,391,598	999
Sub-total.....	\$98,725,701	\$8,770,411	\$107,496,112	\$193,223,213	2,051

PRELIMINARY REPORTS.

Arizona Eastern..... (inc. Phoenix & Eastern)	\$12,178,415	\$778,654	\$12,957,069	\$19,227,648	374
Rock Island System.....	342,830,396	45,770,812	388,601,208	341,401,305	7,686
Grand Canyon Ry.....	1,365,674	6,267	1,371,941	1,988,785	64
M., St. P. & S. S. M.....	108,066,929	6,634,182*	114,701,111	116,953,635	3,144
Northwestern Pacific.....	37,461,314	691,879*	38,153,193	65,984,697	506
Duluth, South Shore & Atl.	19,231,742	939,096	20,170,838	48,167,021	539
Mineral Range R. R.....	3,230,437	113,582*	3,344,019	3,317,151	64
St. Louis Southw'n Sys.....	60,845,317	5,823,190	66,668,507	94,250,627	1,579
Spok., Port. & Seattle.....	55,906,902	6,093,285*	62,000,187	61,266,414	498
Texas & Pacific.....	66,290,979	1,127,432*	67,418,411	109,250,903	1,853
Trinity & Brazos Valley....	10,528,256	499,638	11,027,894	11,792,807	303
Western Pacific.....	60,817,087	6,122,412	66,939,499	86,985,845 ¹	939
Great Northern.....	378,204,335	40,000,000	418,204,335	384,273,853	7,090
O.-W. R. R. & N. Co.....	123,490,128	19,857,000*	143,347,128	156,642,559	1,999
Oregon Short Line.....	107,018,378	2,666,841*	109,685,219	113,094,103	2,129
Sub-total.....	\$1,387,466,289	\$137,124,270	\$1,524,590,559	\$1,614,597,353	28,767
Total: 18 Val. & Prel. Reports....	\$1,486,191,990	\$145,894,681	\$1,632,086,671	\$1,807,820,566	30,818

* Carriers' Return Order No. 7.

¹ Investment as of December 31, 1917, after reorganization—taken from I. C. C. Statistics.

showing ratio existing between

Cost of reproduction new
Present value of Carrier Land

and

as of date of valuation, figures
extracted from I.C.C. Statistics of
Railways

* INVESTMENT IN ROAD and EQUIPMENT as shown on Carriers' books

of

C L A S S 1 of C A R R I E R S

E A S T E R N G R O U P

Tentative valuations Elgin, Joliet & Eastern System
Chicago, Terre Haute & Southeastern

Preliminary reports Ann Arbor System
Bangor & Aroostook
Boston & Maine System
Montpelier & Wells River
Central New England
Hartford Connecticut Western
Chicago & Eastern Illinois
Chicago, Indianapolis & Louisville
Cleveland, Chicago, Cincinnati & St. Louis
Maine Central System
Portland Terminal
New York, New Haven & Hartford
Toledo, St. Louis & Western
Pere Marquette
Vandalia
Terre Haute & Peoria

S O U T H E R N G R O U P

Tentative valuations Atlanta, Birmingham & Atlantic System
Georgia, Southern & Florida
Norfolk Southern System
Winston-Salem Southbound

Preliminary reports Central of Georgia
Southwestern R.R.
Charleston & Western Carolina
Florida East Coast
Mobile & Ohio
Nashville, Chattanooga & St. Louis System
New Orleans Great Northern
Southern Ry. in Mississippi
Gulf & Ship Island
Georgia Railroad and Banking Co. includes
Georgia R.R. Lessee Organization

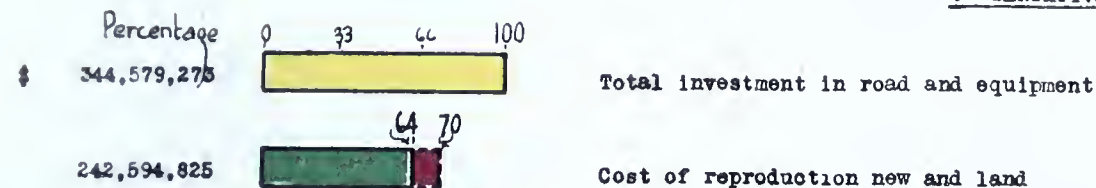
W E S T E R N G R O U P

Tentative valuations New Orleans, Texas & Mexico
Kansas City Southern System
San Pedro, Los Angeles & Salt Lake

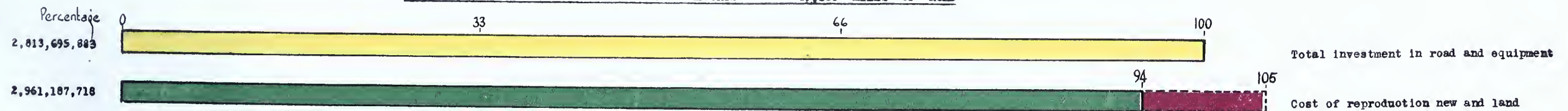
Preliminary reports Arizona Eastern includes Phoenix
& Eastern
Rock Island System.
Grand Canyon
Minneapolis, St. Paul & St. Marie
Northwestern Pacific
Duluth, South Shore & Atlantic
Mineral Range
St. Louis Southwestern System
Spokane, Portland & Seattle
Texas & Pacific
Trinity & Brazos Valley
Western Pacific
Great Northern
Oregon-Washington R.R. & Nav. Co.
Oregon Short Line

	9 Tentative valuations	41 Preliminary Engineering and Land Reports	COMBINATION (50)
Yellow - Investment in road and equipment	\$ 344,579,273	\$ 2,813,695,883	\$ 3,158,275,156
Green - Cost of reproduction new	222,309,428	2,633,732,084	2,856,041,512
Red - Present value of Carrier land	20,285,397	327,455,634	347,741,031
Cost of reproduction new and land	242,594,825	2,961,187,718	3,203,782,543

9 TENTATIVE VALUATIONS - 4,688 MILES OF ROAD

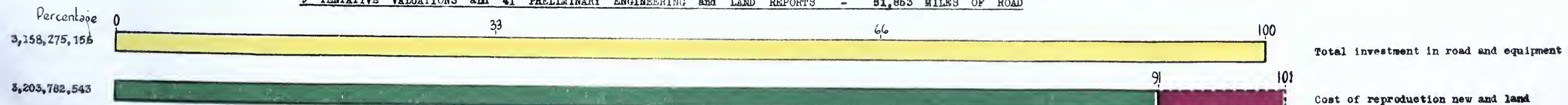


41 PRELIMINARY ENGINEERING and LAND REPORTS - 47,165 MILES OF ROAD



C O M B I N A T I O N

9 TENTATIVE VALUATIONS and 41 PRELIMINARY ENGINEERING and LAND REPORTS - 51,853 MILES OF ROAD



BEFORE THE
INTERSTATE COMMERCE COMMISSION

TESTIMONY OF THOMAS W. HULME
(CROSS-EXAMINATION)

DOCKET No. Ex Parte 74

In the Matter of the Applications of Carriers in Official, Southern and
Western Classification Territories for Authority to Increase Rates

Washington, D. C., June 7th, 1920

PRINTED BY THE
SECRETARY, PRESIDENTS' CONFERENCE COMMITTEE
PHILADELPHIA, PA., JUNE 11, 1920
FOR THE INFORMATION AND CONVENIENCE OF THOSE INTERESTED

THOMAS W. HULME,

a witness previously called and sworn, resumed the stand and testified further as follows:

MR. BENTON:—Mr. Chairman, I had understood that the witnesses would be called in the order in which they had appeared, and I think Mr. Hulme was the last witness called, or the last but one. I will be glad to proceed with his examination at such time as the Commission may indicate. I had certain memoranda in my office which I had expected to use, and which I desire to use in my cross-examination.

COMMISSIONER MCCHORD:—You can send to your office and get your data. Then you may proceed, Mr. Cotterill.

MR. COTTERILL:—Mr. Hulme will be interrogated by Mr. Benton.

CROSS-EXAMINATION.

Q.—(By Mr. Benton.) Mr. Hulme, you stated to us the other day what your connection was with the Presidents' Conference Committee. Are you also a lawyer?

A.—No, sir; I am not.

Q.—But you have been connected with the valuation work from the beginning, from 1913?

A.—I have.

Q.—Would you mind stating just how you happened to be a witness in this proceeding?

A.—I was asked to testify by the Committee of Counsel handling the rate case.

Q.—That is, you did not seek to appear here on account of your connection with the Presidents' Conference Committee work, and of course it was not at the request of the Presidents' Conference Committee that you came?

A.—It certainly was not at my own request.

Q.—What I want to develop is whether you appear here at the instance of the Presidents' Conference Committee, or whether the Presidents' Conference Committee have furnished you as a witness at the request of the executives of the roads making this application.

A.—The Presidents' Conference Committee has not had a meeting since the first of February of this year, so they have taken no action in connection with my appearance here.

Q.—From whom did the request come that a witness appear from that Committee and give evidence here?

A.—Mr. Gowen asked me to testify.

Q.—Your evidence as I remember it seems to be divided into two parts. There is your chart which purports to show what the Commission has done in certain valuation cases, and then there is your opinion as to what the Commission will do in the matter. Now I assume that the chart showing what the Commission has done could have been prepared by any careful accountant who knew how to make charts. That is true, is it not?

A.—I would never pick out an accountant to make such a chart.

MR. BENTON:—I will ask the stenographer to read the question.

(The stenographer read the question as follows):

“Q.—Your evidence as I remember it seems to be divided into two parts. There is your chart which purports to show what the Commission has done in certain valuation cases and then there is your opinion as to what the Commission will do in the matter. Now I assume that the chart showing what the Commission has done could have been prepared by any careful accountant who knew how to make charts. That is true, isn't it?”

A.—I would not say that it is true; no.

Q.—What was there about your experience which specially qualified you to prepare and present that chart?

A.—The chart was a comparison of the reports made by the Commission in connection with their valuation work, and the road and equipment accounts of those carriers. As I testified on direct examination, a great deal of care had to be taken in the preparation, lest there should be duplication of figures in combining them into systems, so that I should doubt whether any one not familiar with the work would have been able to have done it accurately.

Q.—Then it was on account of your familiarity with the valuation work, gained in the several positions which you stated you had held.

A.—I assume that that was the reason.

Q.—And it was that familiarity which enabled you to express the opinion as to what the findings of the Commission would be in the cases in which it has not yet made reports?

A.—I believe that to be so.

Q.—You testified that you had been Vice-Chairman of the Presidents' Conference Committee for some time, and Secretary before that?

A.—Yes.

Q.—Is it a fact that the direction of the work has fallen pretty largely on you from the beginning?

A.—I would say supervision rather than direction.

Q.—Well, supervision. And you are also chairman of the three important committees?

A.—Yes, sir.

Q.—Land, Accounting and Engineering?

A.—Yes.

Q.—And as such you have had constant conferences with the railroad forces and with the forces of the Commission?

A.—That is true.

Q.—And as a result of the experience and knowledge which you have so gathered, you have expressed the opinion that the cost of reproduction at 1914 prices, plus the present value of land, estimated upon the basis of similar adjoining land, as the Commission in the past had estimated present value, will considerably exceed the property accounts of the carriers as they stand on the carriers' books?

A.—I expressed that opinion for the country as a whole, not for individual roads.

Q.—You know, do you not, that the property accounts as they stand on the carriers' books do include in many cases the par value of the securities, when the par value was not in fact received in cash or property by the issuing corporation?

A.—I know that is true in some cases.

Q.—And that the carriers' property accounts reflected on your chart includes those things—I mean include the full amount charged against securities, and intended to balance par, even though par was not received?

A.—That is true in some cases.

Q.—When you say that reproduction cost plus land value, measured as I have indicated, will considerably exceed the total of these investment accounts, what do you mean by "considerably"? What percentage have you in mind?

A.—I did not have and do not have now any percentage in mind.

Q.—Can you indicate it within any wide limits? Is it fifty per cent?

A.—I do not know.

Q.—Or 25 per cent?

A.—I do not know.

Q.—Then is all that you mean "somewhat," or do you mean a large amount?

A.—I expressed in my opinion a very considerable amount.

Q.—But whether “considerable amount” means to you one per cent or fifty per cent, you cannot indicate?

A.—Oh, yes, I could express it more closely than that.

Q.—Will you express it as closely as you feel disposed to?

A.—Based on such knowledge as I have, such figures as I have seen, I should judge it would be—based on the 1914 prices, and on the basis upon which the Commission has done its work, without taking into consideration whatever may be allowed by reason of the views of the carriers on the question of grading, track-laying, surfacing, general expenses and interest, that the excess on the Commission basis would be from 10 to 15 per cent.

Q.—And there are certain items such as these that you have just mentioned, and others which you mentioned the other day, like structures off the right of way, and appreciation, and going value and some other items, which would very largely increase the figures.

A.—Not increase the figures of the cost of reproduction. The latter elements which you name, appreciation, and going concern, are elements that would be taken into consideration in the determination of value.

Q.—In addition?

A.—I prefer to say that it would be taken into consideration. They might not necessarily be additions.

Q.—Your item of structures off the right of way is something which you claim should be added to the cost of reproduction?

A.—Yes, I do, and that would be a very large amount in the thickly-settled portions of the country.

Q.—And have you not in the briefs which you have filed claimed that appreciation should be allowed also in showing cost of reproduction?

A.—We have claimed that appreciation must be taken into consideration in connection with the subject of depreciation.

Q.—You have set up specific items to be added to the cost of reproduction new for that, have you not?

A.—I do not think it has been set up as a specific item.

Q.—I think if you will examine some of your briefs you will want to change that answer. Now the unit prices have been quite generally challenged, have they not, by the carriers?

A.—No, not quite generally challenged, if by that you mean unit prices for all accounts.

Q.—What I mean, Mr. Hulme, is that in nearly every case where a protest is filed, there are more or less protests against the unit prices which the Commission has set. It is a fact, is it not, that the unit prices used by the Commission are the same unit prices which have been actually paid in years gone by, which are claimed by the engineers of the Commission to be reasonably representative of the 1914 prices, and that the carriers quite generally have claimed that there has been a general increase in the trend of prices in the past, so that these prices were not enough. That is the fact, isn't it?

A.—As a general statement that is true.

Q.—Do you think there is anything to that statement? I mean, do you think there has been such an increase in prices?

A.—Since 1914?

Q.—No, prior to 1914.

A.—Our studies of cost show that as a rule there has been an increasing trend of cost.

Q.—How is it as to land?

A.—I have never seen a compilation of data undertaking to show any trend of prices for land.

Q.—You testified the other day that you had been a real estate agent for the Pennsylvania Road for several years, and that you had been in that line of business for thirty years. Now,

irrespective of any studies that you may have seen, or not seen, I ask you for your opinion as to whether the trend of land prices has been up or down, or whether there has been any trend?

A.—As a rule the increase in land values in the cities is very marked. That is mostly true where the growth of population has been great. The increase in suburban territory of course is very considerable; but when you come to farming territory in the East, the reverse is rather the rule. The prices of farm lands in the East are less than what they were in the early days of railroad construction, say 1830 or 1840. The opposite is true of course of farm lands in the West.

Q.—Take the country as a whole, concerning which you have offered evidence on direct examination, what would you say as to the trend of prices having been up or down?

A.—I should think they have been up.

Q.—Can you give any estimate as to the number of hundreds of millions of dollars involved in this? Have you ever made any study or inquiry or investigation of any sort whatever for the purpose of determining how large a part of the present land value represents increment in present land value over the original cost to the railroads?

A.—We find in these investigations as to the values of adjacent land, that in a good many cases in the East the value of the land is not equal to the cost of its acquisition to the railroads. Of course, we find the reverse of that to be true in other cases. But I have not made a compilation, nor have I seen any one attempt to make a compilation about the land as a whole.

Q.—You do not question, do you, Mr. Hulme, that the present land value shown on your chart does very greatly exceed any investment that was ever made in the land itself by the carriers?

A.—Why, yes, Mr. Benton. After a consideration of it, but with an inability at this moment to produce the figures, I doubt whether the land shown on that chart, that is the value of the land is greatly in excess of the cost of the land.

Q.—We will take the country as a whole, leaving out of consideration those particular lines. Do you question that the present land value which will be reported by the Commission will immensely exceed what was paid for those lands when they were acquired?

A.—I do not question it, and I confidently believe that it will very considerably exceed the cost of the land for the country as a whole.

Q.—It will exceed it by hundreds of millions of dollars, will it not?

A.—Easily by hundreds of millions of dollars.

Q.—It may reach the billions?

A.—It may.

Q.—As I understand, you planned this chart?

A.—I did.

Q.—And you consider it relevant to this inquiry?

A.—I did.

Q.—And relevant to the issue which the Commission has to determine?

A.—Relative to the question of the result of the Commission's investigations under the Valuation Act, with the questions that have been considered in this proceeding.

Q.—Relative to what issue to be determined by them in this proceeding?

A.—As to the extent to which their valuation work has any relation to the road and equipment accounts of the carriers.

Q.—In other words you prepared that for the purpose of aiding the Commission in finding the aggregate value which under the Act they are required to find?

A.—I answer, yes.

Q.—Now, as I understand, the purpose of it was to lead the Commission to the conclusion which you expressed, and have expressed again this morning, that the reproduction cost of these properties at 1914 prices, and the present land values estimated as the Commission has heretofore estimated present value of land, would equal and considerably exceed the property account. That is the sole thing indicated by your chart, is it not?

A.—It was my purpose to correctly set forth the facts within my knowledge as to the work that had been done by the Commission in valuation. The conclusions that I expressed were my opinion as to what the work indicated.

Q.—Then will this be true: You prepared the chart for the purpose of supporting your opinion which you intended to express, that the finding of the Commission on this subject would equal the property accounts as they stand on the books?

A.—No; I prepared a chart to ascertain the facts.

Q.—You prepared the chart to bring here to help the Commission find the value. Now I ask you if your purpose was to enable the Commission to draw the conclusion that the present land value plus the reproduction cost was equal to the property account? You can answer that yes or no, perhaps, and if you can, I am sure you are willing to.

A.—I will answer yes, and then I would like to add that I prepared the chart in the first instance in order to show the railroad officials the status of the valuation work. Any conclusions or expressions of opinions were the natural result of the data shown on the chart.

Q.—You said the other day that the result of the Commission's work as shown by your chart and your knowledge of the work, which was not reflected on your chart, led you to the opinion which you gave to the Commission that the property accounts were amply sustained?

A.—I did, yes.

Q.—Now, how do you mean that that information sustained the accounts?

A.—As I stated in my opinion upon the subject, it was not only the information contained on that chart, but other information that I had obtained over the period of seven years, that caused me over a year ago to form such an opinion.

Q.—All that that does is to show that if there were overcharges (as perhaps you will admit there were) in carriers' accounts, the increase in unit costs and in land values has been sufficient to offset those?

A.—No; I made no such statement.

Q.—It is a fact, is it not, that if there has been an increase in the unit prices and an increase in land costs, and your present value of lands plus the reproduction cost only equals the property accounts, instead of sustaining the property accounts they show that the property accounts were not correctly kept?

A.—That is not a correct conclusion at all, in my judgment.

Q.—Do not the property accounts purport to show the original cost of the roadway and structures and equipment of carriers which are now in use?

A.—Not always.

Q.—I say, is not that their purpose?

A.—I do not think so.

Q.—I will admit that it has not always been their purpose, but is not that their proper purpose?

A.—That is their proper purpose; yes.

Q.—And if you have had an immense increase in costs, and yet your reproduction cost and your present land values do not any more than equal your property accounts, you do not think that shows that the property accounts were incorrectly kept?

A.—Well, I do not agree with your premises.

Q.—Never mind. I am responsible for the premises, and you are only responsible for the answer to the question; so answer the question without troubling about the premises. Will you read the question?

(The pending question was read by the stenographer as above recorded.)

A.—My answer is no. May I explain?

Q.—If you think your answer needs explanation, I certainly would like to hear it.

A.—First, I did not say that there had been an immense increase in costs.

Q.—Mr. Hulme, I asked you to accept my question as I asked it. The Commission has had an opportunity to learn about increases in costs in their valuation work, and I asked the question and ask you to accept my premises. I understand your answer is that if that were so, it does not to your mind, show that the accounts were incorrectly kept. I do not want to prevent any explanation of that answer that you want to give.

A.—I am content with the answer.

Q.—Now, your chart reflects the present valuation of all the lands of the carriers covered by the chart; all the carrier lands.

A.—No; because I stated that in the case of, I think, 12 carriers, original cost figures were used.

Q.—What I am getting at is this: In very considerable part the carrier lands of carriers were not originally bought by them, but were received by aids, gifts, grants or donations. Has the present value of those lands been put into your chart?

A.—I think in the case of the roads embraced in that chart that not many of them were roads that received land grants. In other words, I would say that the extent to which land was granted to those companies is very small in the roads included in that statement.

Q.—Mr. Hulme, you have not yet answered my question.

A.—I endeavored to.

Q.—I asked you whether your chart reflected the present value of all the lands owned by carriers, and devoted to carrier purposes, including any that were received by gift, grant or donation.

A.—Yes, for the carriers shown on the chart.

Q.—And when you expressed the opinion that the result of the Commission's work would be that the present value of lands and the reproduction cost of structures and improvements would considerably exceed the property accounts, you had in mind the present value of all lands devoted to carrier purposes; irrespective of the source from which they were obtained, and whether obtained at cost or not?

A.—I had.

Q.—Now, is it a fact that, taken in the aggregate, the lands which have been granted to the carriers have a present value of hundreds of millions of dollars? I am asking you for your opinion.

A.—I should think so.

Q.—Have you ever made any study, investigation or estimate for the purpose of determining how large a proportion of the present value of the carrier lands of this country is represented by lands which were received as aids, gifts, grants or donations?

A.—I have not, but I have seen the statement published by the Superintendent of the Land Bureau in the Interior Department.

Q.—Did you understand that the Superintendent of the Land Bureau of the Interior Department made an appraisal of these lands for the purpose of discovering their present value?

A.—I do not recall clearly what was in that report, but I had it in mind that he had; yes.

Q.—Mr. Hulme, I would rather take your candid judgment upon this matter. Is there any question but what it represents hundreds of millions of dollars?

A.—I answered yes to your question.

Q.—And it might reach into the billions?

A.—I think not, for land grants.

Q.—Would you think it would reach a billion?

A.—I should think not.

Q.—Why did you not make some attempt to show on your chart this item, the item of present value of lands received as gifts, grants or donations?

A.—I had no knowledge of it for the roads concerned. The chart shows the extent to which the land figures entered into the total. It was less than 10 per cent.

Q.—To what extent did the land figures enter into the total concerning which you testified as matter of opinion, namely, the total of all the roads in the country and in each district?

A.—About 12.

Q.—That is, the present value of lands, you think, is about 12 per cent of the whole, of the two items of cost of reproduction new and present land value?

A.—On the basis of my testimony, yes.

MR. THOM:—Mr. Benton, may I ask whether you contend that where land had been given to a company it does not own it?

MR. BENTON:—Mr. Thom, would it be worth while for us to enter into an argument about this case at this point?

MR. THOM:—No, not if you do not want to answer the question.

MR. BENTON:—I will ask the witness questions which will develop the facts I want to bring out from him.

Q.—(By Mr. Benton.) You are aware that the Commission in the Western Advanced Rate case indicated doubt as to the right of carriers to advance their rates to earn a return upon the value of land given to them, are you not?

A.—I am not familiar with those proceedings.

Q.—You are not familiar with the fact that that point was particularly raised in the Minnesota case?

COMMISSIONER AITCHISON:—Mr. Benton, are you asking him to testify to the law?

MR. BENTON:—If your Honor please, this witness has appeared here as an expert, and while he is not an attorney, he has testified that he has been engaged in valuation work for the entire period that the Commission has, and he has prepared a chart which he has asked the Commission to use for finding value; and if he has prepared the chart erroneously, and will say so, I think it is proper for me to develop that fact.

Q.—(By Mr. Benton.) You have testified in the valuation proceedings as an expert with regard to the multiples, have you not, Mr. Hulme?

A.—No, sir.

Q.—I thought you testified here in 1917, March 24th, with regard to the cost of condemnation damages in excess of present value.

A.—If I did, I gave general testimony, but I did not testify as to multiples.

Q.—Were you asked this question, and did you make this reply:

“MR. BUTLER:—Mr. Hulme, from your study of this matter, and from your experience with other companies, could you estimate at the present time with reasonable accuracy what it would now cost, the present cost of the acquisition of the lands and rights of way and terminals of the Pennsylvania Railroad?

“MR. HULME:—I confidently believe I could.”

Did you make that answer to that question?

A.—I did.

Q.—It is your claim, as I understand, that the entire present value of lands should be added into the value found for rate purposes. Is that or not your claim?

A.—I have not testified once on the subject of value in this case.

Q.—No; but you have presented a chart here which you say sustains the carriers' accounts, because the present cost of reproduction plus the present value of lands equals or exceeds the investment accounts.

A.—I testified to that; yes.

Q.—Now, that involves the claim, does it not, that the present value of lands should be added in full into the value found? If that is not your claim, I will pass along.

MR. GOWEN:—Mr. Chairman, we have filed this chart and presented this evidence for the purpose of establishing the relations between property investment accounts of carriers and the

work of valuation so far as it has progressed on the part of the Commission. We are not undertaking to sustain our investment accounts, we are simply showing the relation between the valuation and those investment accounts.

MR. BENTON:—But, Mr. Attorney, you presented a witness who testified to the Commission that his chart sustained the property accounts. Now I am cross-examining him as to that piece of evidence.

MR. GOWEN:—No, we did not. We presented a chart which showed the relations between the property investment accounts and the work of the valuation so far as it had progressed.

MR. BENTON:—Mr. Chairman, we can settle this thing immediately if the carriers will make this admission: that they do not claim that the present value of lands should be added in full into the value found by this Commission.

MR. GOWEN:—Of course we will not admit that.

COMMISSIONER AITCHISON:—Mr. Benton, is it your contention that the Commission is bound by the preponderance of the evidence given by expert witnesses as to the theory of valuation which we should follow?

MR. BENTON:—I certainly do not claim that, Mr. Commissioner.

COMMISSIONER AITCHISON:—If you were going to put that in for that purpose, I would not want it to go in without objection at least from myself.

MR. BENTON:—It is my purpose to get from this witness, who is the man who is chiefly charged with the supervision of the valuation work of the carriers of this country, a statement with respect to that matter.

Q.—(By Mr. Benton.) Do you or not make that claim?

A.—I have not made any claim.

Q.—I am asking you now to state whether in your opinion the present value of lands should be added in full into the value found for carrier properties for rate purposes.

MR. THOM:—Mr. Chairman, I submit that is a question of law.

COMMISSIONER McCHORD:—I do not think so entirely. If he has an opinion on that subject, I think he ought to give it.

Q.—(By Mr. Benton.) You put that into your chart, did you not, Mr. Hulme?

A.—I did.

Q.—Why did you do it?

A.—I compiled the figures, the Commission's figures; their cost new of reproduction of structures plus their findings as to the present value of land.

Q.—Do you think that has any evidentiary force as sustaining those accounts?

A.—I think it has.

Q.—Even although you know that the lands have increased by hundreds of millions of dollars?

A.—Yes.

Q.—And then it is your claim that the present value should go into the value for rate purposes of the carrier properties; is it or not?

A.—It is my personal view that it should.

Q.—And does that satisfy you, or do you claim that in addition to that a multiple should be applied?

A.—I have not used any multiple in my testimony.

Q.—But you have been testifying about the valuation work. Now I want to ask you as to the position of these carriers in the claims they make as to a proper basis for finding value.

A.—Entirely aside from my testimony in this case, it is unquestionably true that the carriers are claiming that in determining the value of their property the present cost of the acquisition of their lands must be taken into consideration.

COMMISSIONER McCHORD:—He is asking you your opinion.

THE WITNESS:—And that is my opinion.

Q.—(By Mr. Benton.) When you say “must be taken into consideration,” what do you mean by that?

A.—Given that consideration which all elements of cost and of value should be given in arriving at a judgment as to what constitutes value.

Q.—Do you claim that you should put into the rate-making value of a railroad what it would cost that railroad to acquire its lands today? You can answer that yes or no, and explain it.

A.—Yes.

Q.—You told Mr. Butler that you could estimate with reasonable accuracy the cost of acquiring the lands, rights of way and terminals of the Pennsylvania Railroad. I want to ask you what, in your opinion, is the multiple which should be applied to all of those lands to get at the cost of acquiring those lands today.

A.—It is not possible to apply any one multiple or two multiples or three multiples to represent those varying conditions.

Q.—How many multiples would you have to use for the Pennsylvania?

A.—Just as many as there are different circumstances

Q.—By that do you mean one for each line?

A.—No. I mean that in the acquisition of property for a terminal, if you take all the property within a block line you will have one condition; if you take only a part of the ownership and create a severance, you will have another condition. In the lead into that terminal, if you approach it through parallel streets and take all the property, you will have one condition. If, on the other hand, you approach the terminal upon a curve, you will have a cutting of property and a disarrangement of improvements that will create another condition; and so in the same way through the suburban property. But when you get into the country you will have another condition. I should judge that a consideration of conditions under which these railroads are ordinarily built would result in a conclusion that similar conditions produced like multiples in about a half dozen cases.

Q.—So you think that about half a dozen multiples could be devised?

A.—To apply to similar conditions; yes.

Q.—Have you ever applied those to your road?

A.—Only as a check on detail examinations made as to each property involved.

Q.—Can you give us any estimate whatever as to what the proper multiple would be to apply to your own road?

A.—You must remember we have a very diversified property.

Q.—I do remember that fact.

MR. FLETCHER:—Mr. Chairman, I do not want to interfere with the examination, but I would like to have it understood that this is not cross-examination, and that this is really the witness of the gentleman, with all the incidents that go with that relation; because this is not a matter which he has dealt with or undertaken to deal with on his direct examination.

Q.—(By Mr. Benton.) You testified with respect to this matter, and you have been the real estate agent of the Pennsylvania for many years. Now, you are not able to advise what multiples should be applied in order to get at the cost of acquiring the Pennsylvania lands today?

A.—I am, under the different conditions that exist.

Q.—All right.

A.—Of course you will realize that I did not come here with a review of the different situations, but from my impressions at this moment it costs about 20 per cent more than the usual selling price of property to get terminals when you take all of the properties involved in a terminal. That is caused by the cost of consolidation of ownership, in which, as you make the purchases, after you have proceeded about a third of the way, you pay increasing prices.

Q.—Mr. Hulme, pardon me; I do not want to prevent you from saying something that you want to say, but my question was for the figures which you would apply, what multiples you would apply, not the reasons.

A.—I should very much dislike to give any figure without stating the circumstance to which that figure applies.

Q.—I am asking for a general multiple to apply on the average over the lines of the Pennsylvania.

A.—There is not any such thing.

Q.—(By Commissioner Meyer.) Mr. Hulme, when you say 120 per cent for terminal properties, do you mean on all terminal properties, in small towns as well as the large places?

A.—No; I am speaking of——

Q.—What would you apply this 120 per cent to?

A.—Large cities, where perhaps you had acquired from 20 to 40 or 50 properties involved, and you took all of the property of the owner.

Q.—(By Commissioner Hall.) Mr. Hulme, do you put that multiple to any working use in the conduct of your acquisition of lands, or anything of that kind? Is it used as a guide in making purchases, or when you send out men to negotiate for land do you set them a multiple as a guide?

A.—No, sir. We first have estimates of value and of cost made by two or more men working independently, and then when those estimates come in they are reviewed by me or one of my assistants, and when we find that the views of the individual investigator or appraiser results in showing an estimated cost of, let us say, 20 to 25 per cent in excess of normal values, in a case such as I have described, we know that the estimate falls within the line of many experiences; and so it goes when you get into the suburban territory where the cost might be three times the normal value, and again when you get into the country territory where the cost might be from two to two and a half times the ordinary value of the property. Multiples are only used by me in reviewing, not as originating, an estimate.

Q.—(By Mr. Benton.) That is, when you have to acquire land in a given place, you do not say to your men, "Find the present value there," or "Find the market value there, and pay up to 200 per cent or 300 per cent"?

A.—Never.

Q.—It is not practicable to do that?

A.—It is not.

Q.—And you could not, as I understand, state a multiple to apply to all your lines, because you would have to make a special study to determine what the proper multiple was upon any line?

A.—But once I had made the study——

Q.—Yes; but the reason that you cannot state a general multiple is that the multiple varies according to the line, the location and the situation?

A.—That is true; but the same multiple may apply under like conditions on other lines.

Q.—Then why do you not, after your thirty years' experience, have in mind the proper multiple that you can give to your representatives when you send them out?

A.—Because I do not know when I send them out that the conditions are like some other line. But when he comes in and reports, then I know whether I have had experience on a similar situation that enables me to use general data in checking the result.

Q.—Then having the multiples determined does not enable you to apply them in a given case until you have made an investigation in that particular case to see which multiple fits?

A.—That is right.

Q.—You testified the other day that in your study of prices you had found that present prices were 212 per cent of the prices of 1914.

A.—I did.

Q.—I want to ask you if, in your opinion, in a rate inquiry, when you are fixing the cost of reproduction new for the purpose of finding rate value, you should use present costs for that purpose.

A.—I would not use present costs unless present costs had been so established over a sufficient period of time to convince me that that level had been reached with a more or less reasonable degree of certainty of its maintenance.

Q.—But assuming that the level is not going to recede, you believe that then present prices should be used?

A.—They certainly should be used in making up an estimate of the cost of reproduction.

Q.—For the purpose of finding rate value?

A.—I have not said the cost of reproduction should be used for rate value.

Q.—But my question was directed to that, Mr. Hulme.

A.—Well, I would not use cost of reproduction as determining rate value at all. I would give it that consideration, with other things, which in my judgment it was entitled to.

Q.—As a matter of fact, you recognize that the application of multiples to lands and the application of present prices, in estimating the cost of reproduction new, would give you in many cases an absolutely absurd value, do you not?

A.—I will say in some cases it would.

Q.—If you came to add in materials and supplies, which you mentioned, which were covered by these charts here——

A.—(Interposing.) No; you are mistaken as to that.

Q.—They are not covered by the charts, but they are covered by the exhibits introduced by the other witnesses?

A.—I believe so.

Q.—And you spoke of working capital as being something which should be added in finding the rate value?

A.—Unquestionably, to my mind.

Q.—The going value. You are familiar with the estimate of $7\frac{1}{2}$ per cent tentatively suggested by the Director?

A.—The Director suggested that in his judgment as applicable in the Texas Midland case only.

Q.—Do you believe that is sufficient in the general cases?

A.—I do not.

Q.—(By Commissioner Eastman.) Mr. Hulme, you said a minute ago that you would use present prices upon evidence that they would be maintained. Just what did you mean by “maintained” in that connection?

A.—I think, Mr. Commissioner, that the language I used was that if the level of present prices had existed over a sufficient period of time to indicate that they would be maintained for a considerable period, that then I would use them in making up a cost of reproduction inventory.

Q.—You do not know of any level of prices that has been maintained permanently, do you?

A.—Not recently.

Q.—(By Mr. Benton.) You say $7\frac{1}{2}$ per cent is not enough. What do you think would be about right?

A.—It would depend upon the circumstances.

Q.—You mean it has got to fit each company?

A.—It has to fit each company.

Q.—The reason that I asked you about present prices was that when speaking of depreciation, if I understood the purport of your testimony correctly, you thought that depreciation was of no consequence, because by an application of present-day prices you can demonstrate that the cost of reproduction was still above the amount of your accounts, even allowing for depreciation. Was that intended by you to imply a judgment upon your part that in this rate case, or in any rate case at this time, the present prices should probably be used?

A.—I think present prices at this time must be taken into consideration in arriving at a conclusion as to any base.

Q.—When you say “taken into consideration,” do you mean that a value should be found which includes the cost of reproduction new upon that basis?

A.—Of present prices?

Q.—Yes, sir.

A.—I would not do so.

Q.—You do not think so?

A.—I said I would not do so.

Q.—Have you made any computation for the purpose of determining what the value of the roads of this country would be, valued upon what you think are the correct principles?

A.—I did not catch the last part of it.

Q.—I say, have you made any computation for the purpose of determining what you think the roads of this country have a value of, according to your principles of valuation?

A.—I have not made any calculation; no.

Q.—I want to refer to your chart, which you say, in conjunction with the other work of the Commission which you have testified to, sustains or justifies the carriers' accounts taken as a whole.

The Commission has made several investigations into the financial transactions of carriers. In the Chicago, Milwaukee & St. Paul case it found that the carriers' property accounts had been inflated by the charging to them of operating expenses. In the Frisco reorganization it found that the property accounts were written up at one time by approximately \$10,000,000, without any increase in mileage. In the Pere Marquette case, commenting upon the charging of \$5,000,000 of worthless accounts to cost of road and equipment, the Commission said:

“The history of the Pere Marquette abounds with situations productive of similar improper charges to these accounts.”

In the C., H. & D. case the Commission reported that extensive stock watering had been largely offset by charges to property investment accounts; and in the Chicago & Alton case it found that the property accounts had been increased from \$34,000,000 by approximately \$62,000,000 without any increase in property whatever.

The valuation work of the Commission has disclosed the same sort of thing.

COMMISSIONER AITCHISON:—Have you not omitted the Wabash Terminal at Pittsburgh?

MR. BENTON:—I might have referred to those, Mr. Commissioner. I have not the data.

Other financial investigations have shown the same sort of thing, and the chart which you have introduced shows three tentative valuations in the Western District. Taking those in their order, the N. O., T. & M. has a book cost of \$15,780,000. The Commission has found that its maximum possible investment was \$10,000,000.

COMMISSIONER AITCHISON:—When did the Commission find that?

MR. BENTON:—In the tentative valuation which has been served.

COMMISSIONER AITCHISON:—Do you understand that that is a finding by the Commission?

MR. BENTON:—It is a tentative finding by the Commission. As I understand, everything which is put into a tentative valuation is a finding served tentatively upon the carrier and other parties, which may be protested.

COMMISSIONER AITCHISON:—This has been protested. That finding is in doubt, is it not, and before the Commission now?

MR. BENTON:—That undoubtedly is protested. The protest is in the course of being heard. The Commission's tentative valuation states that the investment account is \$10,147,000.

The Kansas City Southern shows book costs of \$101,000,000, while the Commission's tentative valuation states the investment at \$45,000,000.

The San Pedro book cost is \$76,000,000, while the Commission's tentative valuation states the maximum investment at \$43,000,000.

Q.—(By Mr. Benton.) Now, assuming these facts to be as stated, in the face of those figures I want to ask you if there is any more convincing demonstration, in your opinion, that the cost of reproduction method of finding value, without consideration of other figures, is wrong, than that if that method is followed it renders of absolutely no consequence all of these gigantic overstatements of property and all the stock watering transactions which in the past have so notoriously inflated carriers' accounts?

A.—Was there a question there?

Q.—Yes. I ask you if you can conceive of any more complete demonstration that the cost of reproduction method of valuation, without regard to other elements, is wrong, than that if it was followed it would render these of no consequence, according to your evidence.

A.—I think the Commission's own investigation in other cases discloses that while there were exceptions, such as you have stated of one kind, there were illustrations of another kind of treatment of the situation. Many carriers, it is known, have written into their road—

Q.—I beg your pardon, Mr. Hulme; would you be willing to answer my question? Then, if it is necessary to explain, you may do so.

MR. THOM:—Mr. Chairman, I insist that the witness shall have the right to answer the question.

COMMISSIONER MCCORD:—Go ahead, Mr. Hulme.

THE WITNESS:—Many carriers have written into their road and equipment accounts properties at a cost very much less than the carrier from which they were acquired carried them. In other words, when roads have acquired properties on a basis, let us say, of \$50 a share, where there was capital equivalent to road and equipment of \$100 a share, such roads have written into their accounts the cost of acquiring the property, which was about one-half of its cost of construction. That has occurred in a great many cases. The Pennsylvania Railroad Company alone, as one instance, has pursued that. The New York Central is a splendid illustration.

Q.—(By Mr. Benton.) How much?

A.—The New York Central.

Q.—How much, I say.

A.—The Pennsylvania has taken properties in its road and equipment account at over \$50,000,000 less than what it cost to construct those properties. The case of the New York Central's acquisition of the Lake Shore is a well-known situation in which they had a closed property account of the Lake Shore for many years, and the New York Central wrote the road and equipment account of the Lake Shore into their road and equipment account at what it stood upon the books of the Lake Shore, and not at the very great excess cost to the New York Central of acquiring the stock of that company.

Q.—I do not think you have answered my question.

A.—Well, the Commission's report on the cost—or, as they call it, the investment—that was made in the Boston & Maine System, shows a figure in excess of what the Boston & Maine carried upon its books. The Commission reported for the Mobile & Ohio an investment on their basis of \$6,000,000 less than what it was carried upon the books of the Mobile & Ohio, and yet at the same time they reported on the basis of 1914 prices a cost of about \$8,000,000 in excess of the account.

There are many illustrations of a very conservative treatment upon the part of railroad companies in their methods of acquisition of property of other companies.

Q.—(By Commissioner Aitchison.) What was your statement about the Mobile & Ohio, Mr. Hulme?

A.—My recollection of the Mobile & Ohio is that their road and equipment account was about \$44,000,000; that when the Commission's accounting report restated their investment they reduced

it to about \$38,000,000, \$3,000,000 of which was caused by the destruction of road during the Civil War, and when the Mobile & Ohio reconstructed it, they charged again to their road and equipment account the cost of replacing that property. When the Commission reported the cost of reproduction of the Mobile & Ohio at 1914 prices, and added the present value of the lands, there was a total of about \$52,000,000 for the Commission's own figures on that property.

Q.—(By Mr. Benton.) Mr. Hulme, you are not willing to answer whether or not you think that if you adopt and apply the cost of reproduction method of valuation it will render of no consequence all of these cases of inflation which I have mentioned? Is there any condemnation of that system of valuation?

A.—I do not think it is any condemnation. I think the Director of Valuations stated the matter very squarely to this Commission in January when he said that the methods that he was pursuing and the prices that he was applying would result, as he saw them, in practically a determination of what had been the original cost of the properties.

Q.—Was he applying those to the cost of reproduction new?

A.—He was; as of 1914 prices.

Q.—(By Commissioner Aitchison.) When you say the Commission did this, in the case of the Mobile & Ohio I suppose you refer to the sections of the Bureau of Valuation rather than the Commission?

A.—I used the term inadvertently; yes—the reports put out by the Director of the work of the Bureau of Valuation.

Q.—That is the case, is it not, Mr. Hulme? These are reports that are handed to the Mobile & Ohio for their criticism?

A.—That is right.

Q.—They have not been put out in general circulation, and the Commission has not seen them.

A.—It was my intention to put it in that light, Mr. Commissioner.

Q.—(By Mr. Benton.) Mr. Hulme, in your statement of detail which underlies your chart, I find that there are these instances where the present cost of reproduction plus the present value of lands is less than the property accounts, and I am only referring to those where there is at least \$5,000,000, and I am speaking in round millions.

The Ann Arbor system, \$5,000,000.

Central New England, \$5,000,000.

Chicago, Indianapolis & Louisville, \$7,000,000.

Toledo & St. Louis, \$21,000,000.

Pere Marquette, \$17,000,000.

A. B. & A., \$12,000,000.

New Orleans & Great Northern, \$9,000,000.

Arizona Eastern, \$6,000,000.

Northwestern Pacific, \$28,000,000.

Duluth, South Shore & Atlantic, \$28,000,000.

St. Louis Southwestern, \$27,000,000.

Western Pacific, \$20,000,000.

O. W. R. R., \$13,000,000.

Aggregating \$325,000,000.

COMMISSIONER AITCHISON:—What is this figure, Mr. Benton?

MR. BENTON:—The difference between the property accounts as shown on the detailed statement of Mr. Hulme and the cost of reproduction new.

Q.—(By Mr. Benton.) You have already testified to the general increase in land values and unit costs, so that the original overcharges in those lines alone must have been much more than \$325,000,000. If your testimony has been correct, that is true, is it not?

A.—It does not necessarily follow from your question, because these are the tentative figures submitted by the Bureau to the roads. Now, the roads claim many omissions in these figures.

Q.—Assuming this to be correct, then——

A.—(Interposing.) And that they were final.

Q.—Assuming that the tentative report of the Commission, which you thought of enough consequence to bring here and put in the form of an exhibit, and assuming that those figures were correct, for those few roads there was \$325,000,000 and much more of overcharges?

A.—It might be.

Q.—And if there has been this general increase in prices and land values, the cost of reproduction new and present land value of the other roads stands at more than was actually put into those when they were bought or constructed? If your testimony is correct, that is true, is it not?

A.—You are reflecting in all these questions——

Q.—Just a minute. If you will answer the question, then I expect you to explain.

MR. THOM:—The witness ought to be allowed to answer in his own way, I submit, unless it is plainly unresponsive.

Q.—(By Mr. Benton.) Mr. Witness, the other day in a Congressional investigation a cabinet officer told the Chairman of a Senate committee that a cabinet officer could not be required to follow the usual rules of evidence. You do not claim that right for the representatives of carriers, do you?

A.—I have not claimed anything since I went on the stand.

Q.—Then won't you answer that question?

MR. THOM:—Answer it in your own way.

COMMISSIONER McCHORD:—You may answer it in your own way.

THE WITNESS:—It has been so long that I have forgotten the question. I will endeavor to.

MR. BENTON:—Read the question.

(The stenographer read as follows):

“And if there has been this general increase in prices and land values, the cost of reproduction new and present land value of the other roads stands at more than was actually put into those when they were bought or constructed? If your testimony is correct, that is true, is it not?”

A.—That to me is an unintelligible question. I do not know what he means by “other roads.” If I am at liberty to make my answer, I will make it in this way: That question presupposes that in these estimates of cost of reproduction there have been taken prices in excess or considerably in excess of the prices paid in the construction of the property. The Director of Valuation has stated that the prices of 1914 are in his judgment generally reflective of the cost of construction of railroads in the 20 years preceding. The answer that I made earlier to your question as to an advance in prices indicated some slight increase in prices in that 20 years, but dealt specifically with the great increase in prices since 1914. So the nearest I can come to answering your question with accuracy is that the cost of reproduction as estimated by the Bureau of Valuation as of the 1914 prices does not reflect inventories constructed at prices materially over those that were paid in the construction of the property; and with that as a base it necessarily follows that the answer to your question, that this reflects the costs in the accounts in excess of the reproduction prices, is not true.

Q.—(By Mr. Benton.) Why did you not show depreciation on your chart?

A.—Because I was comparing road and equipment accounts kept under the accounting rules of the Commission with an estimated cost of reproduction as of 1914 and land values.

Q.—I thought you explained it the other day by saying that the Commission had under consideration the question of depreciation, and arguments had been made about it, and you thought that pending the decision of the Commission as to how depreciation should be treated you had better not show it. Did you not give some testimony to that general effect?

A.—I stated the other day just what I have said in the first portion of that answer, and then I went on explanatorily as to how I would deal with the question if I had to deal with it.

Q.—You knew, did you not, that the law requires, when the cost of reproduction new method is used, that depreciation should be deducted?

A.—Whatever depreciation means.

Q.—Yes; but depreciation, properly using that term. You knew that that should be deducted?

A.—The Valuation Act requires the Commission to ascertain not only the cost of reproduction new but the cost of reproduction less depreciation.

Q.—If you were preparing this chart for the purpose of aiding the Commission to find value, why did you not put down upon the chart the amount by which the physical value as indicated by cost of reproduction had been decreased by depreciation?

A.—Because I was not undertaking to find value.

Q.—But you were undertaking to prepare a chart to assist the Commission to find value?

A.—I was undertaking to prepare a chart that would show the result of the Commission's work in valuation so far as it has gone. The Commission has not found the value of any property. Its investigations so far have practically resulted in a testing of the road and equipment accounts, and so I did not presume to go further than the Commission had gone.

Q.—Has not the Commission found the extent of the accrued depreciation in every case where it has found and reported, tentatively or otherwise, the cost of reproduction new?

A.—They have found what I call theoretical depreciation.

Q.—Waiving your quarrel with the Commission as to what it ought to find, has it not found what it calls depreciation?

A.—It has.

Q.—And that could have been perfectly well illustrated on your chart, could it not?

A.—It could.

Q.—And assuming the Commission to have been right in its definition of depreciation, you admit that the law requires it to be deducted?

MR. FLETCHER:—Mr. Chairman, I do not think we are getting anywhere with this kind of examination, except consuming time and paper, which costs money. Questions of law are being propounded here to this witness, as to what the Act says.

COMMISSIONER MCCHORD:—The question and the answer both indicate that the matter of depreciation is not shown on this chart. The chart shows for itself.

MR. BENTON:—Yes. I think he has answered the other question also.

Q.—(By Mr. Benton.) I notice, Mr. Hulme, that your statement of the detail of cost of reproduction new plus present land value very strikingly exceeds the property accounts in the case of the Boston & Maine, \$80,000,000 in that case, and in the case of the New Haven \$124,000,000; and I think you have said that the New Haven land figures are the original cost figures as reported by that company, and not the present land value.

A.—That is right.

Q.—And I assume that in that territory you would expect very large increases in present land value over its original cost?

A.—That is true with reference to properties acquired many years ago. It is not true with reference to large acquisitions for terminal and other properties for improvements within recent years.

Q.—Is there any question but what the New Haven was constructed many years ago?

A.—Portions of it.

Q.—It was mainly constructed many years ago?

A.—I think the specific answer to your question is that the appraisal of the New Haven lands would show a very considerable increase over the cost.

Q.—That is what I wanted to get at. I wanted to ask you this further question. Your general testimony has covered all the roads of the country. I want to ask you whether it is your opinion that in finding value for rate purposes, in a section where the industrial development has been so great that the land prices have risen to that level where if you put in the full present value of the lands into the value found for the carriers in that section, the carriers would be unable to earn, at any rates or under any rate adjustment which would be fair to other lines, a return on it, the full present value ought still to be put in in those cases?

A.—I think it must be taken into consideration.

Q.—You testified a little while ago that in your opinion it should be put in. Now, I ask you whether in this case it should be put in.

A.—I will answer yes.

Q.—Even although the carriers cannot possibly earn a return?

A.—You are asking me as to the establishment of the rate base, and I say yes.

Q.—Even though under this law, the Transportation Act, that would mean that carriers in some other section would be permitted to earn on that part of the value of the roads in that section which those roads could not earn on, and would receive it in addition to a fair return on their own properties?

A.—I think so, because the Transportation Act was designed in its language to insure a return upon the value of the railroad properties as a whole.

Q.—Take this class of roads: You have shown on your chart the Trinity & Brazos Valley, which has investment accounts of approximately \$11,000,000, and according to your chart land values and present cost of reproduction of approximately \$11,000,000, and which earned in the last year, under private control, according to the Interstate Commerce Commission reports, something like a quarter of a million dollars less than its operating expenses. Assuming that upon the information which the Commission has it is satisfied that that road under the best conditions can never earn more than one per cent, or cannot within a reasonable length of time expect to earn more than one per cent on that \$11,000,000, is it still your claim that it should put into the aggregate value which it is to find, that entire \$11,000,000, or anything approximating it?

A.—Yes.

Q.—Is it your opinion that there has been in this country any money wasted and lost in building roads for which there was no economic justification when they were built, and for which there is no economic justification now?

A.—There has been.

Q.—Is it your opinion that the Commission should treat the roads of that character as if they were justified and good earning properties, and should build up their aggregate value by adding either what they cost or would cost in the aggregate value?

A.—It is not. Where a road is not justified, I would not take it in at its cost of reproduction or its actual cost.

Q.—Take a road like the Moffat, or any other road that is a conspicuous failure; you would not feel that that should be put into aggregate value upon the same basis as other roads?

A.—Without answering specifically with reference to the road named. I would say with respect to any road whose existence is not justified, that I would not include it on the basis of either the original investment or the present cost. Exceptions must be made for such classes of roads.

Q.—(By Commissioner Aitchison.) I suppose, by the same line of reasoning, there are roads that you would take into the aggregate at a good deal more than either the original cost or the present cost?

A.—I would; yes.

MR. BENTON:—May I have the last question and answer read?

(The preceding question and answer were repeated by the stenographer as above recorded.)

Q.—(By Mr. Benton.) But every road, even the most successful, you would value upon a consideration of all of the elements of value which are fixed by the law of the land, which include the original cost and the cost of reproduction new?

A.—I would value it on the basis of what the courts have indicated. I do not understand what this term, “the law of the land,” means.

Q.—That slipped into the law without any help from you?

A.—Yes, sir.

Q.—This chart shows the cost of reproduction of all the property of all these carriers, including additions and betterments made out of earnings. There is no doubt about that, is there?

A.—There are two things shown on my chart.

Q.—Cost of reproduction new, I am talking about.

A.—The Commission’s basis is to take the cost of reproduction new of what they find. In making up their inventory they do not inquire, as I understand it, as to how it was originally paid for.

Q.—Now you can tell me how the matter of depreciation on equipment is handled. When a car is put into service, a depreciation charge is set up against it; that is true, is it not?

A.—It is.

Q.—That is under the rules of the Commission, but the carrier determines how much it will make the charge?

A.—That is right.

Q.—Now, if you come to retire that piece of equipment, and the depreciation which has been set up against it only amounts to half of what that car cost, what is done with the other half?

A.—It is charged to expenses, as I understand it.

Q.—It is charged to operating expenses. Now, the property accounts, as you have reflected them on your chart, contain or do not contain so much of the original cost of equipment as has been offset by charges to depreciation?

A.—It does not include any deduction for depreciation.

Q.—That is, whatever amounts the carriers have accrued have not been deducted from the property accounts?

A.—That is right.

Q.—It is true, is it not, that many carriers have constructed very large additions, taken in amount, to their properties out of earnings?

A.—I think that is right.

Q.—And do you not know as a fact that carriers have ordinarily regarded the improvements which they have made in this way, and additions to property, as taking care of the matter of depreciation?

A.—I think it not only took care of the subject of depreciation, but took care of a great many other things.

Q.—You think it has done that and more?

A.—And more.

Q.—It is the acknowledged duty of every carrier to leave its property free from diminution by depreciation in some manner?

A.—It is.

Q.—Now, I understand that an exhibit is to be prepared showing the extent to which additions and betterments have been paid for out of earnings in this manner. That is true, is it not, Mr. Wood?

MR. WOOD:—I do not know as to that, Mr. Benton.

MR. BENTON:—There is a request out for the preparation of such an exhibit, made by Mr. Thorne, that stands upon the record.

MR. WOOD:—Mr. Thorne asked Mr. Blauvelt, as I remember it, for certain information along that line, which Mr. Blauvelt said he could not furnish. At least, that is my information.

MR. FLETCHER:—That is not quite right.

MR. BENTON:—Mr. Chairman, that is not my recollection of the way the record was left. Mr. Thorne made a request which, it is my recollection, applied to the entire country; if it did not, I will indicate that I wish it to apply to the entire country; and Chairman Clark, according to my recollection, directed the carriers to make reply to that request and to supply the information to the fullest extent possible.

MR. WOOD:—Is that since 1907 or before 1907?

MR. BENTON:—The request was made, I am advised, extending back only to 1907. I would like to have the carriers directed to extend that back as far as it is possible for them to extend it, so that we may have before the Commission, for such consideration as the Commission wants to give to it, a statement of the extent to which existing properties represent, not original investment by carriers, but additions made out of earnings.

MR. FLETCHER:—Mr. Chairman, before that matter is disposed of, if this is the proper time to discuss it, a question somewhat similar to that which has been indicated by counsel was made by Mr. Thorne, as I remember it, from Mr. Shriver, in the first place. I am not at this moment precisely clear as to just what the course of the colloquy was between Mr. Thorne and Mr. Shriver, but I do distinctly recall that Mr. Thorne made the same request from Mr. Blauvelt, who was the witness for the Southern carriers. I further recall that Mr. Blauvelt, after considerable discussion with Mr. Thorne in the presence of the Commission—a rather protracted exchange of question and answer and statement—stated distinctly that it could not be furnished by the Southern lines, and I recall further that the Commission did not require it to be furnished by the carriers at that time. I have the general impression that that is going to be an extremely difficult thing to do, if it can be done at all, and my impression is that it cannot be done. Certainly, at this late stage of the matter, it would involve an amount of intricacy in the accounting which would make it practically impossible to complete it before this hearing can be ended; and I want respectfully to enter my protest against any such request being made by the Commission.

COMMISSIONER EASTMAN:—Judge Fletcher, did not Mr. Blauvelt say that it could be furnished after 1907, that is, so far as the accounts now show appropriated surplus?

MR. FLETCHER:—He said it could be shown so far as certain accounts were concerned; appropriated surplus, yes; but that did not seem to be what Mr. Thorne wanted, and Mr. Thorne, as I remember, said that it would not meet his wishes in the matter and would not answer the thing he was striving for, and my understanding was that the general conclusion reached was that it should be dropped.

COMMISSIONER HALL:—Mr. Fletcher, what was said at that time about the impossibility of ear-marking those things, except as the appropriations were made formally for an express purpose by a given carrier?

MR. FLETCHER:—My recollection is that Mr. Blauvelt stated that those things could not be ear-marked. Mr. Blauvelt is here, and can answer any question about the difficulty or the impossibility of obtaining that information that the Commission may desire to put to him, before a formal request is made.

COMMISSIONER McCHORD:—Suppose we ask him right now about that.

MR. FLETCHER:—I will.

Do you understand, Mr. Blauvelt, the scope of counsel's request as to furnishing that information as to additions to property out of earnings since 1907?

MR. BLAUVELT:—I told Mr. Thorne that we could furnish a statement showing the appropriations to property out of income distinctly appropriated, and he said that was not what he wanted. That can be furnished, and can be readily furnished, just exactly as I understand counsel to ask for it now—the appropriation of income for improvements to property out of income. That is shown by every carrier, and it is shown on their reports to the Commission.

MR. GOWEN:—Would that go back of 1907?

MR. BLAUVELT:—No; it would go to 1907, but many carriers can furnish an additional period back.

COMMISSIONER McCHORD:—Is that what you wanted, Mr. Benton?

MR. BENTON:—What we desire is to get the most complete and perfect statement which it is possible to prepare showing the extent to which existing carrier properties have been constructed out of railroad earnings. When that can be shown with exactness, we would like that. If it cannot be shown with exactness, we would like as careful a statement as can be prepared on that subject.

MR. BURG:—Mr. Benton, do you want that statement with respect to roads which have not paid any dividends from 1907 to the present time; which have not earned a reasonable return on their property?

MR. BENTON:—I am requesting it for all roads. Of course, those roads that have diverted their earnings to the building up of their properties stand in a different position from those roads that have paid reasonable dividends and at the same time have extended their properties.

COMMISSIONER AITCHISON:—Mr. Benton, would you make that apply to the present owner corporations, or do you go back to their predecessors?

MR. BENTON:—Railroad property is railroad property, so far as my question goes.

COMMISSIONER AITCHISON:—Applying the rule you have been applying to Mr. Hulme, would you answer that?

MR. BENTON:—I beg your pardon, Mr. Commissioner?

COMMISSIONER AITCHISON:—Applying the rule you have been applying to Mr. Hulme, would you answer that question? Do you make it apply to the present or to the predecessor, or both?

MR. BENTON:—I am dense, Mr. Commissioner; I do not understand your question.

COMMISSIONER AITCHISON:—I happen to know of a case where a receiver, who has no privity with the present ownership except by sale, constructed certain extensions out of operation during the period in which he was receiver. Do you want that shown?

MR. BENTON:—I want that shown. I want the extent to which these properties have been constructed out of earnings shown. Then, if there is in any case a special reason why the additions should be considered as in fact representing investments by the owners of the property, either through foregoing dividends or through earnings applied by the court during receivership, those facts may be shown.

COMMISSIONER AITCHISON:—You have not answered my question yet. Here is a property that is constructed by a road, and it has been operated by that road for a long period of time, and there is a change of ownership; another corporation, entirely distinct, has it. Do you want what is constructed out of the earnings of each of those corporations?

MR. BENTON:—Yes.

MR. WOOD:—Mr. Chairman, I would like to suggest that there is one subject of inquiry that not only in connection with this case, but in connection with very many other phases of the railroad situation, has been canvassed from time to time by the railroads previous to Mr. Benton's inquiry. Whether the inquiry was made, as now, by opposing counsel, or whether it was made by carriers for their own purposes, the answer that we have invariably received from the accountants is that the amount cannot be stated with any substantial accuracy, and I think that that is a fact that is also well known to most of the members of the Commission.

COMMISSIONER McCHORD:—Can it be intelligently estimated?

MR. WOOD:—I understand not, your Honor. When you go back, for instance, to the period back of 1907, you go back to a period as to which it is difficult, if not impossible, to state anything with respect to it. But with respect to the period since 1907, as Mr. Blauvelt stated, you could give the amount that had been specifically appropriated out of income, but that amount so specifically appropriated out of income does not tell the story. It was his reply to that effect that precipitated the interchange of views or questions and answers as between him and Mr. Thorne, which,

as I remember, lasted for about fifty minutes, at the conclusion of which it appeared that, at least in the judgment of the witness, to give what he has now stated could be given would be of no value as representing the real facts.

Q.—(By Mr. Benton.) That is done, Mr. Hulme, is it not, in valuation cases?

A.—To the extent that the accountants of the Commission can develop it. It seemed to me that your question was trying to anticipate the work of the accountants of the Commission.

Q.—But we are up against a finding of aggregate value which this Commission has got to make. Now I am asking you whether or not the carriers are not right along preparing statements of what they claim is the amount of the investments they have made in property out of earnings.

A.—Some of them are.

Q.—(By Mr. Wood.) In point of fact, Mr. Hulme, those statements that are being made are exceedingly meager, are they not, for the country as a whole, on account of the difficulties or earmarking the money that has gone into the property, as Mr. Blauvelt described?

A.—After you get back of 1907, there is no apparently reliable basis of proceeding with the work.

Q.—(By Mr. Benton.) But the carriers go through all their accounts and present specific claims to the Commission, do they not?

A.—Some of them do; yes. I have advised all of them to.

Q.—You have advised all of them to; and why did you do it?

A.—Because the investigation was as to the cost under one section of the Act, of the property that they have.

Q.—And you desire to show the whole of your original investment?

A.—That was the thought.

Q.—Whether it was charged to operating expenses or not?

A.—That is right.

Q.—And you advised that it be done?

A.—I advised that it be done; yes.

Q.—And of course you would not have advised it unless you believed it could be done?

A.—That is a different question altogether. I knew in many cases it could not be done.

Q.—Were you satisfied from such familiarity as you had with the accounts that it amounted to very large sums?

A.—I believed it to; yes.

Q.—Have you made any investigation or estimate or inquiry whatever for the purpose of determining how much it amounts to——

A.—(Interposing.) I have not.

Q.—on the lines of the Pennsylvania?

A.—I answered before you completed your question. I thought it applied to the country generally.

Q.—I was asking about your own road.

A.—The annual report of the Pennsylvania Railroad of about two years ago showed that out of surplus earnings or income—surplus income, as I would use the term—it had made expenditures amounting to \$201,000,000 and some odd dollars for improvements of its property, which in the year in which it was reported to the Commission it wrote onto its road and equipment accounts.

COMMISSIONER McCHORD:—Just a moment, Mr. Benton. Gentlemen, you have heard the request. During the recess suppose it be ascertained just what is being done in the valuation in regard to that matter, and what can be done, along the line of answering this question.

MR. THOM:—Mr. Chairman, before the recess may I read into the record an answer to Mr. Lamb's question?

COMMISSIONER McCHORD:—Let it come after the intermission. We will suspend now until 2.00 o'clock.

(Thereupon, at 12.35 o'clock P. M., a recess was taken until 2.00 o'clock P. M.)

AFTER RECESS.

The hearing was resumed at 2.00 o'clock P. M., pursuant to the taking of recess.

 ADDITIONAL APPEARANCES.

Mr. H. W. Prickett, 411-415 Kearns Building, Salt Lake City, Utah, appearing for Chamber of Commerce and Commercial Club of Salt Lake and also the Traffic Bureau of Utah.

Mr. Henry S. Hart, Graham Building, Bangor, Maine, appearing for Bangor & Aroostook Railroad Co.

Mr. Rogers MacVeagh, Spalding Building, Portland, Oregon, appearing for West Coast Lumbermen's Association.

 PROCEEDINGS.

COMMISSIONER MEYER:—Mr. Thom, I believe you desire to read a statement into the record?
MR. THOM:—Mr. Lamb's question was this:

"The first request made was whether the carriers were willing to concede that the exhibits offered by the statistical witnesses for each of the three districts of carriers—whether those exhibits show the amounts of the stocks and bonds charged in the property account to the carriers prior to June 30, 1907, at par, and also whether they show the amount that such stocks and bonds charged at par were actually sold for; that is, the proceeds realized by the carriers from those stocks and bonds. If you concede that those exhibits do not show that fact, it will be unnecessary to interrogate the witnesses on those questions."

Our answer is: None of the stocks and bonds of the issuing carriers are charged in the property accounts. Such stocks and bonds appear as liabilities, not as assets.

The exhibits do not purport to separately show how much in money was received from the disposition of the stocks and bonds, nor separately how much money derived from this source was invested in road and equipment. The exhibits purport to show investments in the aggregate and do not tabulate the investments by the sources from which derived.

COMMISSIONER MEYER:—Have you arrived at a working understanding with counsel regarding the matter under discussion by counsel immediately before adjournment?

MR. BENTON:—I did not understand that the suggestion was directed towards reaching such an understanding. It is doubtless my fault that I did not so understand it. I thought the suggestion was that the witness ascertain what the carriers had been doing. I will ask the witness about that.

THOMAS W. HULME

resumed the stand and testified further as follows:

CROSS-EXAMINATION—Continued.

Q.—(By Mr. Benton.) I will ask you if during the noon recess you have learned what the carriers were doing toward ascertaining and stating to the Commission investments which they had made out of earnings which are not reflected in their property account?

A.—My understanding of the Chairman's remark, which I thought was addressed to me, was, that I should be prepared to state upon reconvening what was being done in connection with the valuation work, in the way of such investigation, and I can so state of my own knowledge now if desired.

Q.—Please do so.

A.—In 1917, I was furnished with a copy of the instructions of the Supervisor of Accounts of the Bureau of Valuation to the District Accountants as to what they should investigate in examining the investment accounts of the carriers. Those instructions did not require the reporting of anything that had been charged to income or to expenses.

Our Committee issued to the carriers, under date of July 6, 1917, the following circular, containing the language which I now quote:

“As formulated these instructions do not require the District Accountants to ascertain the amounts which have in the past been charged to expenses, income, or profit and loss accounts for additions and betterments.

“Prior to the promulgation of the Official Classification of Investment in Road and Equipment of Steam Roads, effective July 1, 1914, the accounting practices and methods of the Railway Companies differed upon the inclusion in Addition and Betterment costs, of overheads, transportation of men and materials, discounts, interest during construction and other items that were properly chargeable thereto. Amounts not so charged are, therefore, not reflected in the property accounts and it is obvious that under these instructions (No. 74) they will not be given consideration by the District Accountants in their analyzation of the Road and Equipment accounts, in order to ascertain the Original Cost to Date. Carriers are, therefore, advised to prepare statements to show the amount of such items which were and are now properly chargeable to property accounts but which were charged to other accounts. In preparing these statements carriers are advised to show the exact source of the information, such as voucher numbers, pages of books of accounts, etc., to enable the Government Accountant to readily verify the same if he so desires.”

Wherever carriers have prepared statements, either of their own volition or in accordance with the suggestion contained in that circular, I find in the examination of the accounting reports to the Bureau of Valuation, that the account sets up the amount of additions to the property that was charged to this income account, providing the statement enabled him by reference to verify the entries in the account.

I also have found that the district accountant in his report includes a statement which, if prepared by the carriers shows additions to property that were charged to expenses. Not every accounting report contains such a statement, that is charged to expenses.

The amounts so far as I have seen them are not very large. The accountant of the Commission does not include in his totals, however, the amount that was charged to expense account, but includes in his report or makes reference to the statement of the carriers with reference thereto.

Q.—There is not any difficulty, is there, for preparing for the Commission's use in this proceeding a statement of such additions to your property as you have made out of earnings, charged to operating expenses, or as you have made out of your income?

A.—I should say that there is great difficulty.

Q.—It is just as easy then to prepare it in this case as it would be in the valuation case?

A.—If this case is to continue for that length of time, so that the work could be done; but you must remember that the accountants have been over seven years now in preparing these statements, and the Commission has so far completed only twelve reports embodying such reports.

Q.—Have you made any tabulation of what you have done, so you can give us the benefit of that?

A.—I have not.

Q.—That could be made with no very great expenditure of time, could it not?

A.—It could be made by the Commission. You do not know these things until they complete their report.

Q.—I am now speaking about claims which you make as to investment not reflected by your property account, which have been made out of earnings, and as to your investment which you have made out of income.

A.—I am unable to answer that question, because I am not familiar with what the accountants of the various railroad companies have done.

Q.—I was depending upon the information which you gained since 1913 as Chairman of the Accounting Committee, in constant touch with the accountants of the railroads, and holding conferences with them as you stated you did. Have you not gained any information on that subject?

A.—I have not gained any information on that subject that will be helpful to you.

Q.—Just before the recess I was asking you about roads which had no economic justification, either when built or now. I want to ask you now about another class of roads. Is there not in this country a class of roads which were built to serve some industry, the useful life of which was practically measured by the length of time necessary for use in that particular industry, as for instance a line running to a mine or a line running to a lumber region, in which case the lines would be able to earn returns on their value and more while the industry was in operation, but after the mine was exhausted or the timber cut off they would be of little value?

A.—I understood this morning that that was the class of roads to which you referred, and to which I responded, that if their existence is not justified, personally I did not see that their cost should be included in this proceeding.

Q.—I was asking you this morning about roads which were not justified when built. I am now asking you about another class of roads, which may have been justified when built, but which have served their useful purpose.

A.—Then I misunderstood you this morning, because I do not know of any road for which there was not a justification when built.

Q.—Well, let me cite you to the S. P. & S., running from Spokane to Portland, Oregon, through a territory that never has developed and gives no immediate prospect now of developing sufficiently so that that road can pay a return either on what it costs or on what it would cost today.

Now if it be a fact, as to which I ask no opinion from you, that this road has never paid and can never be expected to pay upon its own traffic, would you say that that road ought to be treated for valuation purposes as if it had been built through a country which would develop and would yield traffic to pay for it?

A.—My answer must be based upon a general knowledge of conditions and not specifically with reference to that road. Now I should scarcely imagine that anybody would put \$50,000,000 or \$60,000,000 into a railroad—especially as the Northern Pacific and the Great Northern put money into that road—unless there was in the minds of the management and directors of those companies a justification for that expenditure. Taking into consideration the fact that the transportation facilities of the country today are insufficient, I would be loath to express the opinion that any railroad property may not be justified.

Q.—Leaving out of consideration the name of that property and the location of it, assuming that a road has been built where, at the time it was built and now, there was no reasonable prospect of its being able to earn a return upon the investment in it, would you say that that road ought to be treated as economically justified?

A.—If anybody was foolish enough to construct that sort of a road, I would say no.

Q.—I think that is in accordance with the opinion you expressed this morning. Are you familiar with the branches of the O. W. R. & N. in the Deschutes Valley.

A.—No, sir.

Q.—And the Oregon Trunk?

A.—No, sir; I am not.

Q.—Now if it appears that two roads, for the purposes of fighting each other, have built parallel lines up the Deschutes Valley or any other valley, to a timber supply which was not sufficient to

lead either one of them to expect that those two roads would earn fair returns upon their cost, if it developed that those roads had been unable to earn a return on their cost and that now there is no reasonable prospect of their earning a return on their cost, would you say that those roads ought to be put into the aggregate value at what they cost to build, or what they would cost to build today?

A.—I bow to the declaration of Congress in that connection, which has passed an Act that I think requires their inclusion.

Q.—But if the Act of Congress did not exist, you would not say so, would you?

A.—I do not know what I would think under those circumstances.

Q.—Let me ask you what you find in the Act of Congress which controls the judgment of this Commission with reference to its finding of the value of any property.

A.—I think the particular declaration of the policy that the Act of Congress requires be pursued leaves ample latitude to the Commission in the exercise of its judgment.

Q.—Yes, and if the Commission finds that a corporation has thrown away \$25,000,000 in building a road that was not justified and that is not earning and cannot earn a return upon the investment, do you find anything in the Act of Congress which compels this Commission to put that \$25,000,000 into aggregate value for the traffic of this country to pay a return upon?

A.—If the Commission shall so find after having given that carrier ample opportunity to be heard and present its side of the case, I should have great respect for the judgment of the Commission.

Q.—That is as far as you care to go at the moment?

A.—I think I went a long way with you, Mr. Benton.

Q.—Then I understand you would not quarrel with the Commission if it did not see fit to put that \$25,000,000 in the aggregate?

A.—I would rather say I am not going to quarrel with your assumption.

Q.—All right. Now I want to ask you how carriers treat a property which they buy, intending to use it for railroad purposes, in advance of actually devoting it to that purpose. Do they put it into their property account?

A.—Yes.

Q.—If they have got to use that property finally for carrier purposes, or dispose of it, it nevertheless, in the carrier accounts is reflected by that charge, and if it has been classified by the Commission as carrier lands, it is in the chart of the present value of lands of the carriers?

A.—The answer to that question is no. In the case of the carriers shown in this chart the findings as to value of non-carrier lands aggregated about \$29,000,000. The amount shown in the account of miscellaneous investments by these carriers was about \$10,000,000 or \$11,000,000. So there was about \$18,000,000 which I did not include in my figures here, but which if included under your line of thought, and probably ought to be included, would have increased my excess of cost of reproduction over road and equipment about \$18,000,000. I left it out because I thought it was a debatable question.

Q.—Perhaps my question was not well formed, but what I asked was whether or not if the Commission classified the particular land as carrier land, it would not be reflected in the present land value shown by your chart. That was what I tried to ask you.

A.—I grasp you. It would, yes.

Q.—And if your carriers had not written it off by selling it or something of that sort, it would still be in the property account?

A.—The answer to that question is yes.

Q.—Those are the two questions combined in one that I asked you. Now I had in mind a case like this: The O. W. R. & N. intended, as I understand, at one time, to build to Tacoma and Seattle, and bought extensive real estate there with that in view, but afterwards arranged to get into Tacoma and Seattle over the Northern Pacific. Are you aware whether those items of expenditures have ever been taken out of its property account?

A.—I am not.

Q.—The other day you testified that quite commonly abandoned property remained in the property account.

A.—I do not think I so testified.

Q.—Well you have at least made a study of the valuation work of the Commission sufficiently to know that several million dollars of abandoned property was found in the cost of the Kansas City Southern, have you not?

A.—I am familiar with what was found in the Kansas City Southern.

Q.—Well, that is a fact. That was shown there.

A.—I think it was shown that it was being dealt with under the orders of the Commission, for a gradual meeting of that account year by year, instead of having to take it out all at once, the Commission itself directed that it be spread over a period of years.

Q.—So it is in the property accounts reflected by your chart?

A.—Yes, and I think there is an item on the other side of the Kansas City Southern balance sheet which shows how it is being dealt with.

COMMISSIONER AITCHISON:—Does your property account show the property of the Mobile & Ohio that was destroyed during the Civil War?

A.—The amount I have in for road and equipment includes the amount that was destroyed during the war, because the carriers left it in and charged the cost of replacing it to that account.

Q.—(By Mr. Benton.) Mr. Hulme, this morning you expressed the opinion that the present value of lands reported by the Commission was not greatly in excess of what those lands had cost.

A.—Of course I was dealing with the carriers that were shown in my consolidated chart.

Q.—Take the Kansas City Southern for example. In the case of the Texarkana & Ft. Smith Railroad, which was a part of that system, I find that the percentage of increment over original cost was 526 per cent. In the case of the Kansas City, Shreveport & Gulf, a part of the same system, and it was 116 per cent. In the case of the Port Arthur Canal and Dock Company, also in that same system, it was 407 per cent. I find that in the case of the Winston-Salem, a road recently built, the increase was 38 per cent. I find that in the case of the Wrightsville & Tennille Railroad Company, which I think is not one of your chartered roads, the increase is 1250 per cent.

On the Tonopah & Tidewater Railroad Company, the increase is 600 per cent. Some of these roads were not covered by your chart, but are covered by your general testimony, which embraced all roads in the country.

I find that in the case of the Georgia Southern & Florida Railway Company the increase is 327 per cent; in the case of the San Pedro, Los Angeles & Salt Lake Railroad Company the increase is 127 per cent; in the Macon & Birmingham Railway Company the increase is 134 per cent; in the case of the Norfolk-Southern Railroad Company the increase is 46 per cent; in the case of the Carthage & Pinehurst Railroad Company, a part of that system, the increase is 350 per cent; in the case of the Wadley Southern Railway Company, 843 per cent; in the case of the Hawkinsville & Florida Southern Railway Company the increase is 1750 per cent; in the case of the Chicago, Rock Island & Pacific, which is perhaps the largest property shown on your chart, the increase is 167 per cent.

COMMISSIONER AITCHISON:—What are you reading from?

MR. BENTON:—From a tabulation showing the increment in land value over original cost, as reported in the tentative valuation served by the Interstate Commerce Commission.

COMMISSIONER AITCHISON:—Are you making a statement or asking a question?

Q.—(By Mr. Benton.) I am making a statement preparatory to a question. In the case of the Boston & Maine the increase is 126 per cent. Now in the case of those figures, assuming them to be correct, would you change your testimony or opinion to the effect that the present land value as reported by the Commission did not materially or largely exceed the original cost of those lands to the carriers?

A.—My answer was given to a question that I understood to relate to those included in the chart.

The chart at the bottom shows that the land constituted but 10 per cent of the total amount involved. That is, the total of the Commission's findings as I stated them, was \$3,203,000,000, 10 per cent of which would be about \$320,000,000. Ten per cent of the amount in road and equipment would have been \$316,000,000.

My testimony in detail stated that out of the total included for land, thirty roads had received land reports which totaled \$214,000,000. Then I proceeded to give original cost for the other carriers, which brought it up to the \$320,000,000; so while you have picked out a number of roads in which there was a material increase in the land value, it is evident that the others must have shown a situation that was not so large a percentage as that you have given.

Q.—That is true. I have given you the largest ones. But in view of the fact that out of the roads charted by you there are increases running along like 126 per cent for the Boston & Maine and 167 per cent for the Rock Island, and increases in the Kansas City Southern System running up as high as 526 per cent, would you not be inclined to change your opinion as to the roads which you have charted, and that they show a present land value largely in excess of what the lands actually cost them?

A.—Oh, there is a land value in excess taken as a whole; but when you take into consideration that about half of the investment in road and equipment of the railroads of this country represents the eastern territory, and that in that territory there has not been along the right of way running through the farming district an increase in land values as a rule, you will find that your great increase in your land values comes within the cities and the suburban territory.

Now I have been a little bit surprised at the impression that I have obtained from my study of the work so far as it has gone, that the land figures have not shown up as much as I expected in connection with it. This chart shows about 10 per cent, and it ran uniformly from 10 to 12 per cent. I had fully expected that it would develop 15 per cent.

Q.—(By Commissioner McChord.) Do you not find that the percentage varies, that as the size of the system increases, and settlement increases and traffic increases, the percentage represented by the land is a smaller part of the total.

A.—I think that is so, but as I testified on direct examination I do not think we have yet reached the type of road which most truly brings out that statement, but I believe it will be brought out when we reach those classes of roads.

Q.—(By Mr. Benton.) But the most striking increase ordinarily comes where the population is congested?

A.—Yes, provided the holding is within what you call a good part of the city. I know other cases where the construction of the railroad has decreased the value of the adjacent land.

Q.—Take the increase on the Boston & Maine, extending all through northern New England, 126 per cent increase, how do you account for that increase over original cost except by the development of the community and the increase in the land values resulting?

A.—I am not sure that that is an increase over original cost. It is a finding of value on the basis of the investigations of the value of adjacent land compared with the return made by the company under an order for original cost, but all these railroads are finding, in the preparation of the return under that order, that they cannot find of record all of the costs that they incurred. In a great many cases the actual considerations are not stated and none of the expense named in the acquisition of the property, which would perhaps be something like eight or ten per cent, the actual expenses of conducting the negotiations. In a great many cases that is not included. I should be very much inclined to view those returns of original cost under that order as falling short of the actual cost to the company of acquiring the property, by at least 10 per cent.

Q.—What are you going to do with the other 116 per cent?

A.—116 per cent?

Q.—Yes, starting with an increase of 126 per cent?

A.—Did you have the result where original cost was \$1,000,000, and it was found to be \$2,165,000? In other words, do you get an increase of 25 per cent or 125 per cent?

Q.—Yes, the original cost of the Boston & Maine Railroad was \$7,025,000. As stated in the tentative valuation, the present value is \$16,000,000, which shows a percentage of 126 per cent increase; and the other increases which I named were increases over and above the original cost.

COMMISSIONER EASTMAN:—The Boston & Maine?

MR. BENTON:—Yes.

COMMISSIONER EASTMAN:—The figures which I have, show the Boston & Maine at \$44,000,000.

Q.—(By Mr. Benton.) The reason for the difference is that I now deal with the Boston & Maine proper, and not the system. Now with the knowledge that these percentages which I have given are percentages of increase over and above the original cost of the line, are you or not disposed to change your testimony given this morning? I will take it either way. I do not care which way you leave it.

A.—I feel that way about it myself.

Q.—Which way will you leave it?

A.—I am going to assume that what I testified to this morning was the correct answer.

Q.—And you this morning testified that you thought the full present value should go into the value found for rate purposes?

A.—I do.

Q.—I want to call your attention to a statement made in one of the briefs supplied by your organization, and then ask you a single question, which I think will complete what I want to ask.

In the brief filed on behalf of the Presidents' Conference Committee there is on page 28 this statement of the law:

“The Supreme Court in the Minnesota Rate Cases, after long and exhaustive consideration and after reviewing *Smythe v. Ames*, reached the final conclusion that in determining whether or not the right to ‘just compensation’ has been denied, ‘each case must rest upon its special facts.’ In other words, the court concluded that there was no such thing as a fixed ‘value for rate-making’ which could be determined in advance for any carrier and which would apply to such carrier, in every character of rate case arising. This conclusion did not mean, however, that value must not be determined in each rate case, but simply as the ‘special facts’ in each case may vary, more or less weight will be given to certain factors in one case as against another, in determining ‘the value’ and that ‘the value’ will have to be determined in each case as it arises.”

Now assuming that to be a correct statement of the law—and I may perhaps remark that I conceive it to be the most important single principle applicable to valuation for rate purposes—I want to ask you for your candid opinion as a man who has been studying valuation since 1913, as to whether the fact that this country has just emerged from a great war which has led to an extremely high price level, and that the result of the changes brought about by the war in price levels and otherwise has been to increase the operating costs to all carriers so that the aggregate operating expenses almost entirely consume the earnings of the carriers, and that another increase in operating expenses arising from wage rate advances is in sight, and that the condition in the country at large is such that any further increase in the level of prices will not only cause great hardships to many classes, but will actually endanger the continued well-being of the country, I want to ask you, if you assume those facts to be true, whether those are not special facts which may lead to the conclusion that less weight ought to be given to reproduction costs, especially so far as they relate to increases in reproduction cost estimates arising from estimates in prices since

original construction, and to unearned increment in land values, and to additions and betterments made out of earnings, than would be given in an ordinary case under ordinary circumstances?

In other words, Mr. Witness, I want to ask you as a valuation expert who has made a deep study of this question, and for whose honest opinion I have very large respect, to say to me you do not think the special facts which surround this case may properly lead the Commission to give less weight to reproduction cost facts than would be given in an ordinary case.

A.—If you will permit me to answer you briefly, without intending to show disrespect for the very long statement you have made, I would say that I hold as my personal view that if you will take the equated purchasing power of the dollar and apply it to the railroad properties the same as you apply it to all these other things, you will have substantial justice and there will be no great complication such as is present in your mind in connection with the use of these properties.

Q.—(By Mr. Thom.) Ought not the purchasing power of the dollar to be applied to what they get in the way of revenue?

A.—That is what I had in mind.

Q.—(By Mr. Benton.) I value your opinion, but it is not an answer to my question. I ask you, if you assume the facts to be as I have stated, whether or not that state of special facts in your opinion may not reasonably lead to the conclusion that less weight should be given to these classes of reproduction costs which I have instanced than might be given in some other case where the facts were widely different.

A.—I did not know I was going to be called upon to value all these railroads. On an equated basis I would give the same weight to the cost of reproduction factor in determining the values today that I would have given it in 1914. When you analyze the purchasing power of the dollar in all its relations, I do not find that the railroad situation, dealt with in dollars, should be dealt with in any other way, and that is the reason why there has to be this application for an increase in revenues, to put that basis upon an equated dollar.

Q.—While you did not come here expecting to value these properties, and have not been asked to do so, you did come here to help the Commission?

A.—I have endeavored to do so.

Q.—And you are willing to give them your opinion on any subject relative to the issue, are you not?

A.—Any that they may desire.

Q.—Are you willing to answer that question?

MR. GOWEN:—He has answered it.

Q.—(By Mr. Benton.) Do you consider that you have answered it?

A.—Yes. I can answer it again, just as briefly.

Q.—Can you tell me whether you answered it in the affirmative or in the negative?

MR. WOOD:—I submit that the witness has answered, because counsel has given his idea as to the effect which should be given to the purchasing power of the dollar, and what the present purchasing power of the dollar is in this property, and that the witness in his answer states his idea as to what effect should be given to the purchasing power of the dollar.

COMMISSIONER McCHORD:—You have asked this witness some pretty long questions, and I think you might ask them in broken pieces. Go ahead.

A.—I can add nothing to answer.

Q.—(By Mr. Benton.) I will leave it there, on my question as to whether the witness is willing to tell us whether he has answered in the affirmative or in the negative.

A.—I have answered to the best of my ability.

Q.—You cannot say whether you have answered in the affirmative or the negative?

A.—I do not know what was the affirmative or negative of the statement.

Q.—(By Mr. Merriam.) I should like to examine you briefly. Will you refer again to your chart, please? You have there in the second column a heading “forty-one preliminary engineering

and land reports.” Will you tell me what you mean by that term “preliminary reports,” as you have used it there?

A.—After the Commission had made the service upon 55 roads, of a tentative valuation, and had had hearings in which legal proof was taken upon matters in dispute, some one reached the conclusion that expedition in the adjustment of differences would be had if these engineering, land and accounting reports were tendered to the carriers, and not served upon them in the first instance. So I called those that were tendered by letter of the Director “preliminary reports,” as distinguished from those that were served by the Secretary of the Commission as “tentative valuations.”

Q.—This does not refer to the field minutes made by the engineers of the Commission taking the units of valuation?

A.—No, this refers to the inventories, the engineering inventories of construction, as made up and sent to Washington by the district engineer.

Q.—(By Commissioner Aitchison.) And priced.

A.—And priced.

Q.—(By Mr. Merriam.) The Valuation Department has a document which is called, with reference to a particular road, the land report on the Chicago, Terre Haute & Southeastern. Are you familiar with that report?

A.—Only with the total.

Q.—That is the report from which figures are drawn to make the tentative valuation.

A.—That was one of the roads tentatively served; yes.

Q.—That report is the report from which the figures are drawn off to make the tentative valuation, is it not? Now is this term “preliminary engineering and land report” to be applied to the report which preceded this land report to the Commission that I have just mentioned?

A.—I think the answer to your question is no. When the Commission served what were called tentative valuations, they did not state the figures as to value in that tentative report, but they merely served upon the carriers the engineering estimate as to cost of reproduction: the figures contained in the land report, and a digest of what had been included in the accountant's report. There was not a valuation. As I understand it, the Commission has not made a final valuation in any case.

Q.—Do you consider that the preliminary engineering and land report which you have referred to here is substantially the same thing as the tentative valuation which you speak of here in Column 9, tentative valuation?

A.—I think the answer to that question is yes. The only difference that I know is that instead of legally serving the tentative valuation, and then having hearings and putting in legal proof, the practice is for the Director to send these reports to the carriers in order that the basis of exceptions may be pointed out and errors and other things cleared up.

Q.—Were the preliminary reports in the nine tentative valuations the same as the tentative valuations?

A.—I think so.

Q.—(By Commissioner Aitchison.) Just a moment before you answer that. Are you sure that there were preliminary reports in the nine tentative valuations?

A.—I supposed he was inquiring as to the reports of the land and engineering and accounting.

Q.—I am inclined to think those were not perhaps submitted in the same way as they are now being submitted, were they?

A.—That is true. They were not submitted to the carriers before they were served, but I know of no difference in the manner of preparing them from what is in force in the preparation of them now.

Q.—(By Mr. Merriam.) Was there no difference in the figures contained in the preliminary report, of the roads involved in these nine tentative valuations, than the figures involved in the tentative valuation?

A.—Not within my knowledge.

Q.—You do not know, however, that they were the same?

A.—I do not. I believe them to be, but I do not know.

MR. MERRIAM:—That is all.

Q.—(By Mr. Fulbright.) I want to ask you a question or two about the roads and the values of land in the southwest, as we find them in this case, in Missouri, in the territory south of the Missouri River, and in Louisiana, west of the Mississippi, and all of Oklahoma, Arizona and Texas. Have you made any investigation as to the value of land in that territory, or as to the trend of land values in the past four or five or six years?

A.—I have not, and I have never been in that territory.

Q.—I understood you to testify in a general way with respect to the change of the value of land this morning, speaking of the country as a whole, and I merely wanted to ascertain if you spoke particularly with reference to this southwestern section?

A.—I did not.

Q.—On the last page of your second exhibit, under the heading "land," does that in all cases not marked by the asterisk reflect the value of the land as found by the agents of the Commission?

A.—It does except in one case where I made an error and understated it by \$5,000,000.

Q.—(By Commissioner Eastman.) Did the Commission find that sum for the Great Northern—\$40,000,000?

A.—I understand the report has not come to Washington in connection with that, but that was the carrier's advice to me as to the Commission's total approximately, based on their comparison of values by zones into which the road is divided for purposes of comparison.

Q.—(By Mr. Fulbright.) You spoke of those figures as including the value of lands owned by the carriers and obtained by land grants. Did you intend to include in your estimates the value of the land grants from States as well as from the National Government?

A.—If you will recall, I did not testify at all on that subject. Mr. Benton made a statement in a form to which I had to say yes, I believe. The figures in here are the lands that are owned or held for carrier purposes, irrespective of how the carrier obtained them.

Q.—The cost of reproduction new, is that in all cases for the fiscal year ending June 30, 1914, as of that date?

A.—No, sometimes it is 1915 and sometimes it is 1916. That is, the prices fixed are as of 1914, but the quantities of material in the property are as found by the representatives of the Commission, either of 1914, 1915, or 1916.

Q.—You have not indicated which are of 1914 and which are of other years.

A.—I can do that for you immediately, if you want the information. The first three tentative valuations were of June 30, 1914.

Q.—What about the St. Louis Southwestern system on that page?

A.—1915.

Q.—The Texas & Pacific?

A.—1916.

Q.—In those two cases do you know whether the roads have filed any exceptions or any claims as to what they contend the value should be?

A.—Those roads have advised me of the nature of the claims that they have made as to what should be included in cost of reproduction inventories. You understand we have not any of us reached the stage of claiming value, but the nature of the exceptions which they took to the Commission's inventory have been filed, as I understand it, with the Director of Valuation from whom they received these preliminary reports.

Q.—You have no information as to what their claim would amount to, how much difference there would be? You have not that information here?

A.—No, I am not prepared to testify to that.

Q.—Have you there the information in the case of the Kansas City Southern, and what they claim the value to be? If you have not got it there we can get it elsewhere.

A.—The record is so complete, and it is all in print, that you can get it very readily.

Q.—I thought possibly you had that information here.

A.—No, sir.

Q.—What data have you for the expression of opinion you have made as to other roads of the United States than those that are included in your exhibits? Have you compiled any data as to valuation, any data as to cost new in the case of other roads than those in this tabulation, outside, of course, of your own road, the Pennsylvania, concerning which you have testified?

A.—I have a great deal of data, sir, but I haven't it with me. It is upon all that data that I form my opinion.

Q.—Did you get up any work sheets in this case going into those items for other railway systems?

A.—No, sir; I did not.

Q.—Have you prepared such data at any time for the purpose of arriving at such a conclusion as you have expressed here—any work sheets showing the data of other systems?

A.—I have been shown test sheets by the representatives of various roads, and have gone over with them the basis of their preparation of those test sheets, but I have not in my possession what you would call such preliminary studies for various carriers.

Q.—Were those cases in which the Commission was proceeding with the work of valuation, and that were therefore brought to your attention?

A.—Yes, and the explanation is this, that the Commission has been so handicapped in the computation of quantities and the application of prices, through lack of the proper computing force, that it is sometimes a year or more after the completion of the field work before the Commission gets its computation work completed. Now it is only prudent and natural that the carriers should take the data found by the Commission, the field notes and the preliminary computation, and make a test of those results.

Q.—How many roads have presented that preliminary test to you for revision?

A.—Do you mean have shown it to me for information?

Q.—Yes.

A.—I guess twenty-five or thirty.

Q.—How many of those are Class 1 roads?

A.—All of them. I have nothing to do with any others.

Q.—There have been some 150 roads in the United States that you have not made this study with yet?

A.—Not in the form in which you put it, but——

Q.—Then your answer has been based here upon the particular roads that you show in this group, and those upon which preliminary studies, as you call them, have been presented to you, and also, of course, upon your own information concerning the road with which you have been associated?

A.—No, it has been based on additional information. I testified on direct-examination as to the Director's judgment that the prices ascertained by the Bureau as of 1914 and the five-year period preceding it were reflective of conditions and prices paid in the twenty years previous to that. If you take his basis, without taking my own, that there had been some rise in price, and if you take the knowledge of what he has done in the field, what has been done by the co-operative parties—and that work is all done with the exception of a few hundred miles of road—then you have a knowledge as to how the investment account of a carrier has been constructed; whether in the acquisition of other roads it has taken into its road and equipment account those absorbed lines on a basis of what it cost if it was less than the road's equipment account, or if the cost to the carrier was greater than

that, when you have given such consideration to the history of any particular carrier, you get somewhere near the truth of its financial structure and you know what the answer is going to be.

Q.—Your conclusion, then, has been based upon a study of the history of the carriers, has it, or upon these field notes, which? I am trying to get the basis of your opinion.

A.—Both of them; but I would not have you think that all these studies to which I refer were made by me individually. I doubt whether anybody can do that. I am reflecting what many men have told me, and have formulated an opinion in that way.

Q.—But can you intelligently formulate an opinion with reference to any particular line until you have the detailed figures in front of you such as are furnished in these preliminary studies?

A.—Oh, yes, you can get very closely an approximation of what the result is going to be.

Q.—In the case of the St. Louis Southwestern that we referred to a while ago, on page 4 of your exhibit, what study have you made of that system outside of the figures furnished to you in the preliminary report? Are you familiar with the land values, or with what the reports show as to land values?

A.—No.

Q.—Are there any peculiar conditions connected with that road which you could give as the basis of your conclusion in considering that road as an example?

A.—The officer in charge of the valuation of that road would tell me what had been allowed as the basic rate for grading. He could tell you what had been put into the inventory for track-laying and surfacing, and as to what had been allowed for general expenditures and for interest during construction, which is determined by the length of the construction period adopted by the Government engineer. Now when you have seen twenty-five or thirty of such things, and you find a consensus of opinion on one side at least, that in respect to these four features they are materially short of what they should be, not in the judgment of one man but of a very large number of men who have had long experience in building railroads, then I think you come confidently to the opinion that some increase will eventually be made in the final form of those inventories and figures.

Q.—It is by the comparison of these figures in these particular roads that you have reached that conclusion?

A.—It is upon the comparison and study of the figures in particular roads and the knowledge of conditions of other roads, and the financial structure—of the way in which the mergers and consolidations have been made, and all the advices that I received from these many men who were engaged in the work, upon which I based my opinion.

Q.—(By Mr. De Vane.) I want to ask you if it is the position of the carriers in this case that they should have the full six per cent on a full valuation, and if any doubt arises that it should be resolved in their favor rather than in favor of the rate-paying public?

A.—The best answer I can give you to that question is that I have not been engaged in or consulted by those who prepared the case on that question.

Q.—You have been their expert witness on the matter of valuation, and my object in asking that question was, if there was any doubt as to whether or not the book value is accurate, whether you think that doubt should be resolved in your favor or not? I just desire the carriers' position on that matter and I am asking you for information.

A.—My testimony stated facts as I found them, the facts as ascertained by the Commission. I was asked whether I thought the development of those facts for the country as a whole, for the railroads as a whole, would demonstrate that their investigations in valuation would sustain the book accounts as a whole, and I confidently expressed the opinion that it would.

Q.—Just to carry that illustration a little further, you have made a comparison here of certain railroads, showing that the book account of the railroads plus present land values will run along about the same, and in that connection you show no depreciation. Now, assuming that $7\frac{1}{2}$ per

cent would be a proper percentage to take off for depreciation, and a doubt should arise as to that matter, do you think that doubt should be resolved in favor of the carriers or in favor of the shipping public?

A.—I do not think anything should be taken off for depreciation which as ascertained is theoretical depreciation. It is based upon life tables which are not prepared as the result of the exhaustion of the service lives of the property, and are the result of retirements on account of inadequacy and obsolescence. So my position, and the position that has been expressed on behalf of the carriers before this Commission many times, is that the only amount that could be taken for depreciation is the amount that represents an actual deterioration that could not be made good economically in the maintenance of the property.

COMMISSIONER MCCHORD:—Gentlemen, I do not see that that line of questioning is throwing much light upon the subject.

MR. DE VANE:—Very well; I will abandon it, Mr. Chairman.

Q.—(By Mr. De Vane.) Mr. Hulme, have you given any study to the road and equipment account of the carriers in earlier days?

A.—Some of them; yes.

Q.—Can you tell us anything about how the road and equipment account was kept more than ten years ago? Was it kept with the same accuracy as it is now?

A.—Why, I think it was kept with the same accuracy, but you must keep in mind that there were not absolute rules governing the determination as to what account certain expenditures should be charged to, so that there was some latitude upon the part of the accounting officer as to where the charge should be made.

Q.—Is it not a fact that it has only been in the last ten or fifteen years that there has been much attention paid to the road and equipment account of the carriers?

A.—I do not think that is so. I do not think that the classification of accounts as promulgated by the Commission was anything new that had been theoretically constructed. My understanding is that they were under consideration for a long period of time, and that they finally issued them based upon what they had found by experience to be the best way of dealing with the subject. Many carriers had kept their accounts for many years in accordance with those instructions as they were promulgated.

Q.—There is one other question that arises here on the matter of land values. There are a great many roads in the country that have become systems by the consolidation of small roads. A great many of those smaller roads have had land grants. In the formation of a new company and the taking over of the old company, with its land, how is that land treated; do you know?

A.—I do not; no, sir.

Q.—Take the Atlantic Coast Line as an example, which is the consolidation of many systems. You do not know anything about how the land in that road is treated?

A.—No, I do not. I can suggest this to you, though: That many of the earlier corporate mortgages covered all of those lines, and that subsequently, when the Commission's instructions came with reference to the segregation to an account called "Miscellaneous Physical Property," that there was difficulty in a segregation because of conditions that had existed for many years.

Q.—Take your exhibit here with reference to the tentative valuations and the preliminary reports, by which you make your illustration. Does that cover all the tentative valuations and preliminary reports that have been made up to the time you prepared this exhibit?

A.—All that have been made within my knowledge that can be compared. Sometimes the Bureau of Valuations submitted an engineering report and not a land report; sometimes a land report and not an engineering report. I used all that was comparable.

Q.—There were no others that you could use there that were of the same reliability that these are?

A.—No, sir.

MR. DE VANE:—That is all.

Q.—(By Mr. Burchmore.) Mr. Hulme, I want to direct your attention to a deduction or conclusion that might be drawn from your testimony, to see whether you draw that conclusion. As I understand your exhibit and your oral testimony, you have made a comparison of the cost of reproduction new and the present land values of certain roads, with their book account of property investment, of those same roads, showing that as to those representative roads (if they be representative) their book investment figure is supported by the Commission's valuation so far made; and from that fact, for reasons that you have explained, you have drawn or expressed a conclusion that the book values of the property investment account of the railroads of the whole United States will be supported by the valuations when finally made. Is that your conclusion?

A.—Yes.

Q.—Mr. Shriver in Exhibit No. 1, I think, has stated that in Class 1 eastern roads the property investment on the books is \$8,658,000,000 odd, excluding materials, or \$8,934,000,000 including materials; and I may say similar figures, corresponding figures, have been given for the southern and western regions. I do not know whether you are familiar with those figures or not. Do you wish the conclusion drawn from your testimony that the valuation that the Commission may ultimately make of the property of the railroads used in transportation will support those figures put in by Mr. Shriver and others as their book investment?

A.—Why, I so testified, and I say yes again. The only difference between my language and yours is that I testified that the cost of reproduction new and the land, when added together, would exceed the book account. I did not testify as to the value at all.

Q.—Here is our difference: As I understood you, you said that this cost of reproduction new and present land value, when ascertained, will support the book value.

A.—I said it will sustain it, and more than sustain it.

Q.—You did not say what that value was. I am asking you now whether you want it to be understood as your conclusion that it will support \$8,934,000,000 as the value of the eastern roads.

A.—In my judgment it will exceed it thirty or forty per cent.

COMMISSIONER AITCHISON:—Mr. Burchmore, it is not very material, but you included material and supplies there, while the witness has not.

MR. BURCHMORE:—I gave both figures, not knowing which was the correct one.

COMMISSIONER AITCHISON:—The last one you gave included material and supplies.

MR. BURCHMORE:—I gave the two. I did not know which one corresponded with his figures.

Q.—(By Mr. Burchmore.) I want to ask you this further question: Do you know whether those figures as given by Mr. Shriver are limited to cover only property used in transportation, and to exclude properties not used in transportation?

A.—As a rule they only cover properties used or held for transportation purposes. The segregation of the property that it is not intended to use for railroad purposes has been made into an account called "Miscellaneous Physical Investment."

Q.—Yes, but are you familiar with these figures as put in by the other witnesses, so as to know that they do exclude the non-transportation properties?

A.—I am not acquainted with the figures that are embraced in Mr. Shriver's statement, but I have examined the investment accounts, the road and equipment accounts and the miscellaneous physical account of all the railroads in the East, and most of the railroads in the West, and I know what is contained in those accounts; that is, in the miscellaneous physical property account.

Q.—And in expressing your opinion that you expressed generally, you are assuming that the figure put into the record by Mr. Shriver as representing the property investment is a figure that does not include property not used in transportation?

A.—I am assuming that as a general principle, and believe it to be substantially correct.

Q.—To use a conspicuous example—I do not know anything about the facts—but at New York City we all understand that there is that enormous terminal of the New York Central, which

includes a great deal of land and buildings that are devoted to purely private use. I assume they are owned by the New York Central; that seems to be a popular belief; and that they are rented out. Are figures of that kind, for example, included in this property investment, according to your understanding?

A.—I happen to have a knowledge of the New York Central's operations, because I have been engaged in somewhat similar development around the Pennsylvania terminal, and a great deal of the money that has gone into those improvements has been furnished by the lessee; the land itself, either where the surface or the subsurface rights are used.

COMMISSIONER McCORD:—Mr. Shriver told us that, I think.

MR. BURCHMORE:—What I am trying to test is whether this witness in fact has any such knowledge of the property investment figures as given by Mr. Shriver and by the other witnesses for the other regions, that he can stand by his opinion that these particular figures will be supported by the present land values and cost of reproduction when later ascertained, as distinguished from simply supporting the true book figures, whatever they are.

THE WITNESS:—The property of the New York Central adjacent to its terminal, the title of a very large proportion of which was put in the New York State Realty Company, the cost was charged to that company; and the same way with the property adjacent to the Pennsylvania station in New York. The title and cost of that property, where it is exclusive of railroad use, is carried in the accounts of a real estate company and not in the accounts of the railroad company.

Q.—(By Mr. Burchmore.) And they are not carried in the property investment accounts that are used to arrive at the total figure given by Mr. Shriver?

A.—To the extent that they are not used for railroad purposes at all, they are not so carried. Where there is a subsurface use for railroad purposes, and there is a building put on top of it for some other use, I am not able to answer specifically your question.

MR. THOM:—Mr. Buckland knows. He is here; he knows the fact, if you want him to answer.

MR. LAMB:—Mr. Chairman, may I interrogate the witness on a matter that has developed since he was on the stand, in cross-examination?

COMMISSIONER McCORD:—Yes.

Q.—(By Mr. Lamb.) What was the nature of the studies that you made of the valuations of the properties of the railroads other than those you have named in your Exhibit 1?

A.—I have several times stated that I started with the consideration of the method by which the consolidated system account had been created, where the properties were taken in at their cost to the acquiring company, whether that was more or less than the road and equipment account of the acquired company, whether in reorganization of a railroad company the amounts carried on the books had been reduced or not; the reports of the valuation engineers as to the progress of the field work, and whether it was proceeding in a manner that satisfied them as to the quantity——

Q.—Possibly I can shorten your answer. Can you give us your working sheet upon which you developed your judgment? Take the C., B. & Q. Railroad as an illustration.

A.—I have no working sheets with reference to any of them.

Q.—It is just something you have looked over, and it covers how long a period of time?

A.—Seven years.

Q.—And it is your recollection that you are giving now, based upon these studies of merely looking at the book accounts of these railroads?

A.—Oh, not at all, sir.

Q.—Are they the reports that have been made by the engineering departments of the railroads, the law departments of the railroads, or taken from the annual reports of the railroads to the stockholders? What are the things that you finally base your judgment upon? That is what I am trying to get at.

A.—Aside from the Commission's figures, what I base my opinion upon is the work that has been done by the representatives of each of these roads in connection with valuation, and their

study as the result of it, many of whom have gone over their studies with me in order that I might be informed, and to get the benefit of any judgment that I might have.

Q.—But they did the work of bringing the information to you and submitting it to you for your judgment; is that the idea?

A.—In most cases; yes, sir.

Q.—You did not do it personally?

A.—I could not.

Q.—(By Commissioner Aitchison.) Mr. Hulme, do you have the written sheets from which your exhibits were prepared, that we can use for checking purposes?

A.—Yes, sir; my clerks have them here, and they are at your service.

Q.—Would you mind leaving them?

A.—Would you like me to leave the men with them, too?

Q.—I do not know about that.

A.—There are one or two errors, Mr. Commissioner, in my compilation, to the extent of about half of one per cent on both sides of the case.

Q.—We have a little trouble, for instance, to identify the N., C. & St. L. system.

A.—Yes, sir; because I omitted from that your figures for the Western & Atlantic, which is a state-owned road, where the Bureau of Valuation's finding was \$17,000,000. There are no road and equipment accounts for that carrier. The capitalization of the rental paid at 6 per cent is \$10,000,000. The representative of that system had in his original figures that he gave to me \$10,000,000 for road and equipment, and the \$17,000,000 which the Commission had found for cost of reproduction, but I excluded the Western & Atlantic because it involved an assumption with reference to calculation of a rental, and I avoided all assumptions in my compilation of figures.

Q.—There were some little things of that sort that make it desirable, in order to have an accurate understanding of your exhibit, that we have the working sheets.

A.—If you would like, I would like to leave the two men here with them. Will you indicate to whom they shall report?

COMMISSIONER AITCHISON.—They can report to the Secretary.

Q.—(By Commissioner Eastman.) Mr. Hulme, do you consider these roads in the eastern territory which you have listed as fairly representative of the roads in that territory?

A.—I do not; not by a long, long way.

Q.—In what respect are they not representative?

A.—I do not think you have a single east-and-west road there. You have got north-and-south roads that have not been successful.

Q.—You have the Big Four?

A.—Well, with that exception, and the Vandalia, which is a very small portion of the Pennsylvania System. When you take the Ann Arbor, Pere Marquette, Clover Leaf——

Q.—Would you think the cost of these would be greater or less than the average for the entire eastern territory?

A.—Excluding New England—and I excluded New England from the scope of my opinion—it certainly must be very much less.

Q.—Less than the average for the entire territory?

A.—Yes, sir.

Q.—Apparently the cost of reproduction new plus present value of land figures out about \$93,000 per mile of road. Would you think that would be lower than the average for the eastern territory?

A.—Your figures include New England, Mr. Commissioner?

Q.—Yes.

A.—When I testified before I gave some statements to you in answer to a question concerning the New Haven, which figures are materially altered when you bring in the total for the system;

and one of the things that will be disclosed to Mr. Commissioner Aitchison will be that I used a land cost which was for the system and not for the New Haven proper. But when all the figures are adjusted it results in the New Haven's cost of reproduction new plus land being \$12,000,000 greater in comparison than I stated it to be.

Q.—Is \$93,000 per mile of road, in your opinion, a fair average figure for the whole eastern territory?

A.—It is going to be low for the east-and-west trunk lines.

Q.—What did you say the figure would be?

A.—It is very difficult to answer your question, because the figure that would apply for the trunk itself is constantly diminished by the percentage to which there are laterals of lighter and cheaper construction, diminishing the whole. I could not give you a figure as to what it would be under those circumstances.

Q.—(By Mr. DeVane.) Mr. Commissioner, if you will permit, I will carry on right there the question that I started to ask him awhile ago, and which I abandoned. Your illustration here includes one-fifth of the mileage of the entire country, does it not?

A.—About one-fifth the mileage, and about one-sixth of the road and equipment accounts.

Q.—But do you not think it can be taken as a fair illustration of the value of the rest of the property?

A.—Why, I am confident that it cannot.

Q.—That would produce only about \$16,000,000,000 in property investment, would it not?

A.—No, because you had a fifth of the mileage to get a sixth of the investment, so it would naturally follow that the better class roads are to come.

MR. DEVANE:—That is all.

MR. THOM:—Mr. Chairman, would you have any objection to Mr. Buckland answering at this time Mr. Burchmore's question about the New York Central?

COMMISSIONER McCHORD:—Proceed, Mr. Buckland.

MR. BUCKLAND:—The accounts of the Grand Central Terminal buildings are carried respectively in the New York Central and New Haven books entirely aside from the road and equipment account. The New Haven accounts carry it as investment in Grand Central Terminal Building. The New York Central account is, I am advised, in the New York State Realty & Terminal Company. They nowhere appear as a part of the road and equipment account of either of those companies.

MR. PLUMB:—If the Commission please, I should like to ask Mr. Hulme a very few questions.

Q.—(By Mr. Plumb.) Mr. Hulme, you have been real estate agent for the Pennsylvania Railroad how long?

A.—Seven years.

Q.—And connected with the Land Valuation Committee of the Presidents' Conference Committee how long?

A.—Seven years.

Q.—Have you made any study of the accounts of the Pennsylvania to determine what percentage of its lands were acquired by eminent domain?

A.—I have not.

Q.—Can you give any estimate as to what percentage of those lands are so held?

A.—I cannot.

Q.—In connection with the Presidents' Conference Committee, did you make any such study as to all of the railroads?

A.—None whatever has been made.

Q.—Can you give any estimate as to the percentage of land that is so held?

A.—I cannot.

Q.—Did you make any study to determine what percentage of the lands and rights of way were held under grants or deeds giving to the railroad only a right of way and no other interest?

A.—I have not.

Q.—Can you express any opinion as to what percentage of lands are so held?

A.—I cannot.

Q.—Did you make any study to determine what percentage of the lands of the railroads were held under grants made by the state or the nation conferring only a right of way?

A.—You asked me, had I made such a statement?

Q.—Yes.

A.—I have not.

Q.—And you can express no opinion as to the percentage of lands so held?

A.—I cannot.

Q.—Has anyone under your direction made any such study covering either the Pennsylvania or all of the railroads?

A.—No, sir.

Q.—Assume a case where a railroad acquired a right of way by condemnation, and paid any determined amount, and in the revaluation proceedings it was determined that the cost of acquiring that right of way today would be in excess of the amount actually paid when the right of way was acquired. Is it your theory that the railroad company is entitled to charge the public a rate which would pay a return upon that increased value?

A.—You said increased cost, did you not?

Q.—Increased cost; yes. I will accept the amendment.

A.—No, Mr. Plumb; I have never given that a thought.

Q.—Have you attempted in any of your valuations to define the interest which the railroad company possessed in any of its lands?

A.—I think our counsel have debated that question with you.

Q.—I asked if you have.

A.—No, sir; I have not.

Q.—And in no case have you attempted to value the interest which the railroad possessed as separate and apart from the land itself?

A.—I have not.

Q.—Besides being the real estate representative of the Pennsylvania and the Presidents' Conference Committee, are you also a lawyer?

A.—No, sir.

Q.—That excuses many things. (Laughter.)

A.—It likewise helps. (Laughter.)

Q.—In your theory of valuation do you believe that the railroad company can claim any right against the public other than that which is conferred by its charter?

A.—Having told you I am not a lawyer, I do not worry over those things.

Q.—Have you been advised on that question by any of your counsel?

A.—So many times that there is a confusion of thought.

Q.—A confusion amongst your own counsel?

A.—No; only in my own mind. (Laughter.)

Q.—Have your counsel given you any advice on that question which you have followed in making your valuations?

A.—You must remember it is the Commission that is making the valuation, and we are only helping.

Q.—But you are testifying on a theory.

A.—I am testifying on a compilation of the Commission's own figures. No theories of mine entered into the compilation of the figures.

Q.—Then you are not responsible for any of the theories upon which that compilation is based?

A.—Those are the Commission's.

Q.—Have you made a study of any of the charters of the various railroad companies?

A.—No, sir.

Q.—Have you been advised as to any of the rights which the railroad companies claim under those charters?

A.—Only as I have heard you expound them, sir.

Q.—But have I advised you as to what rights you should claim?

A.—I think you have.

MR. PLUMB:—I am glad of it. (Laughter.) That is all.

COMMISSIONER MCCHORD:—Is there anything further?

MR. THOM:—Mr. Chairman, we have refrained from objections to questions, for the purpose of expediting the case and for other apparent reasons. There is a class of questions, however, which have been asked in respect to land grants and other sources of title. The carriers wish to enter of record the view that this is not a question of title to property, nor the source nor the means by or from which or through which derived, but a question of values.

MR. PLUMB:—Mr. Chairman, that remark seems to be directed to these questions. I do not say that this is a question of title.

MR. THOM:—Mr. Plumb is mistaken. I had never heard his cross-examination when I contemplated making this statement. It was with respect to the questions asked by these gentlemen with respect to land grants.

(Witness excused.)